



NEW APPLICATION

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

2003 APR 14 P 12: 55

MARC SPITZER

Chairman

MIKE GLEASON

Commissioner

JEFF HATCH-MILLER

Commissioner

JIM IRVIN

Commissioner

WILLIAM MUNDELL

Commissioner

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION)
OF SALT RIVER PROJECT AGRICULTURAL)
IMPROVEMENT AND POWER DISTRICT FOR)
AN ORDER AUTHORIZING ITS ISSUANCE)
OF REVENUE BONDS AND REFUNDING)
REVENUE BONDS)

DOCKET NO. E-2217A-03- 0232

APPLICATION

TO THE HONORABLE ARIZONA CORPORATION COMMISSION:

This Application of the Salt River Project Agricultural Improvement and Power District (the "District"), for an order authorizing the issuance of revenue bonds and refunding revenue bonds, respectfully shows that:

Introduction

1. The District is a political subdivision of the State of Arizona pursuant to Article 13, Section 7 of the Arizona Constitution, and an agricultural improvement district duly organized and existing under Title 48, Chapter 17 of the laws of the State of Arizona, A.R.S. §48-2301, *et seq.* Its principal place of business is 1521 North Project Drive, Tempe, Arizona, and its post office address is Box 52025, Phoenix, Arizona 85072-2025.

2. The District is principally engaged in the purchase and sale of electricity in the Counties of Maricopa, Pinal and Gila, in the State of Arizona, and the generation of electricity in the States of Arizona, New Mexico, Nevada and Colorado, primarily for sale in Arizona.

1 3. The attorneys for the District in this proceeding are:

2 W. Gary Hull
3 Principal Senior Attorney
4 Kelly J. Barr
5 Manager, Regulatory Affairs & Contracts
6 Jane D. Alfano
7 Corporate Counsel
8 Salt River Project, PAB 300
9 P.O. Box 52025
10 Phoenix, Arizona 85072-2025

11 Kenneth C. Sundlof, Esq.
12 Jennings, Strouss & Salmon, P.L.C.
13 Two North Central Ave., Ste. 1600
14 Phoenix, AZ 85004-2393

15 4. Title 48, Chapter 17, Article 7 of the Arizona Revised Statutes (the
16 "Act") authorizes the Board of Directors of the District to issue and sell revenue bonds for
17 any undertaking, as that term is defined in A.R.S. §48-2462(2), and to issue and sell revenue
18 bonds to refund outstanding revenue bonds.

19 5. A.R.S. §48-2465.B provides that the District may not issue revenue
20 bonds until it first secures an order from the Commission authorizing the issuance of such
21 bonds in accordance with those provisions of A.R.S. §40-302 pertaining to the issuance of
22 bonds. The District last requested and obtained such approval in 2001 for the issuance of not
23 to exceed \$675,000,000 in revenue bonds and not to exceed \$750,000,000 in refunding
24 revenue bonds, as set forth in the Commission's Decision No. 64253, dated December 5,
25 2001, in Docket No. E-02217A-01-0183.

26 6. On April 7, 2003, the Board of Directors of the District adopted
27 resolutions (the "2003 Board Resolutions") authorizing (i) the issuance of not exceeding
28 \$580,000,000 Salt River Project Electric System Revenue Bonds for the purposes authorized
29 pursuant to the Act including, without limitation, paying or reimbursing the cost of
30 construction of improvements, replacements, additions, extensions and betterments of the

1 electric system (the "Revenue Bonds"), (ii) the issuance of not exceeding \$640,000,000 Salt
2 River Project Electric System Refunding Revenue Bonds to provide monies to refund any
3 revenue bonds theretofore or thereafter issued by the District and to pay expenses incurred in
4 connection therewith (the "Refunding Bonds"), and (iii) the filing of an application with the
5 Commission for an order authorizing the issuance of the Revenue Bonds and the Refunding
6 Bonds, in such amounts as management of the District shall determine to be necessary to meet
7 the financial needs of the District. True copies of the 2003 Board Resolutions, authenticated
8 by certification of the District's Corporate Secretary, are attached hereto as Exhibits A, B and
9 C. There have been no amendments to the 2003 Board Resolutions.

10 7. The purpose of this Application is to secure, pursuant to A.R.S. §48-
11 2465(B), an order of this Commission authorizing the issuance of the Revenue Bonds and the
12 Refunding Bonds consistent with the 2003 Board Resolutions.

13 8. The Board of Directors of the District, pursuant to its statutory
14 authority, has the responsibility to determine that the issuance of revenue bonds and refunding
15 revenue bonds is compatible with sound financial practices, constitutes the proper
16 performance of the District's duties, will not impair its ability to provide service to its
17 ratepayers, and is within its lawful powers as an agricultural improvement district.

18 **Revenue Bonds for Construction Purposes**

19 9. Because of the development of the District's business in recent years
20 and further growth that is reasonably expected, the District requires additional capital to
21 provide funds for the purpose of paying the cost of construction, acquisition and installation of
22 improvements, replacements, additions, extensions and betterments of its electric system
23 including, but not limited to, the construction, acquisition and installation of electric
24 generating facilities, transmission lines, distribution lines, substations and related facilities,
25 assets, and equipment necessary therefore, and financing costs related thereto. Exhibit D
26 hereto, "Estimated Capital Expenditures for Fiscal Years 2004-2009," sets forth the District's

1 estimated capital needs during its Fiscal Year 2004 Financial Plan period (fiscal years 2004-
2 2009).

3 10. The District, in consultation with the District's financial advisor, Lazard
4 Freres & Co., has determined that the best means of obtaining the additional capital which the
5 District estimates will be needed through fiscal year 2009, in light of present market
6 conditions and other relevant factors, would be either privately negotiated sales of revenue
7 bonds, either through purchasers or underwriters, or, at the option of the District, public sales
8 of revenue bonds, in an amount not to exceed \$580,000,000 (the Revenue Bonds).

9 **Refunding of Revenue Bonds**

10 11. The Revenue Bonds will be issued and sold for the purposes of paying
11 the costs of construction and acquisition of improvements, additions, replacements, extensions
12 and betterments to the District's electric system including, but not limited to, the construction,
13 acquisition, and installation of electric generating facilities, transmission lines, distribution
14 lines, substations, and related facilities, assets and equipment necessary therefore, and
15 financing costs related thereto.

16 12. Due to a variety of factors, the general level of borrowing costs for the
17 District fluctuates substantially from time to time. As an example, interest rates for District
18 revenue bonds (as well as for similarly rated issuers of tax-exempt debt securities) generally
19 rose during the late 1970's and remained above 9% through the mid 1980's. Interest rates
20 then began to fall and generally were in the 7% range during the late 1980's. Interest rates
21 then fell again in the early 1990's to levels in the 6% range. In the early 2000's, interest rates
22 have fallen even further to historically low levels. From time to time, due to temporary
23 reductions in the general level of interest rates, the District has marketed its revenue bonds at
24 interest rates below the previous high levels. This fluctuation in borrowing costs of the
25 District is illustrated by the fact that while the effective interest rate of the District's
26 \$55,000,000 Electric System Revenue Bonds, 1981 Series B, dated October 1, 1981, was

1 14.3641%, the effective interest rate of the District's \$104,065,000 Electric System
2 Refunding Revenue Bonds, 2002 Series D, dated November 8, 2002, was 3.0542%.

3 13. When market conditions improve so as to permit an overall savings in
4 debt service, the District refunds bonds issued at high rates of interest through the issuance of
5 refunding revenue bonds. A.R.S. §48-2471, and Section 2.05 of the Resolution referred to in
6 Paragraph 22 of this Application, specifically authorize the District to issue refunding revenue
7 bonds. The refunding techniques described in this Application have been generally accepted
8 and recognized as proper and legitimate methods by which tax-exempt issuers of bonds may
9 take advantage of market conditions to reduce debt service costs. Exhibits E and F, attached
10 hereto and by this reference incorporated herein, utilize the District's 2002 Series A
11 Refunding Revenue Bonds to illustrate how refunding can reduce debt service. The 2002
12 Series A Refunding Revenue Bonds, which refunded prior bond issues, reduced future debt
13 service by approximately \$21.4 million.

14 14. The District makes refunding decisions based on a number of criteria
15 including, but not limited to, (i) the interest rates on outstanding bonds, (ii) current market
16 interest rates, (iii) the costs of funding an escrow, (iv) call provisions on refunding candidates
17 and (v) potential debt service savings. As part of the refunding process, the District, in
18 association with its lead underwriter and financial advisor, utilizes present value analyses to
19 identify potential refunding candidates. A present value savings figure is calculated for each
20 issue and maturity. An overall net present value savings figure is also calculated. The
21 aggregate net present value savings that could be realized through the refunding is then stated
22 as a percentage of the par amount of the bonds to be refunded. This calculation serves as the
23 primary decision making criterion (or hurdle rate) for a refunding. The District historically
24 has not refunded long maturity debt unless the savings is seven percent or greater. The
25 District in recent years has also considered refunding shorter maturity debt with savings as
26 low as three percent.

1 15. The District, in consultation with the District's financial advisor, Lazard
2 Freres & Co., has concluded that due to the fluctuation in interest rates, in the future it may
3 be possible to sell the Refunding Bonds to refund the Revenue Bonds at interest rates which
4 will result in substantial debt service savings to the District. In addition, the District has
5 determined that when interest rates are low, it must be able to proceed quickly in order to take
6 advantage of the low interest rates frequently afforded by the market. In order to be able to
7 proceed quickly to refund the Revenue Bonds, it is necessary to have previously obtained the
8 authorization to issue and sell, by public sale, or by private sale to purchasers or through
9 underwriters, the Refunding Bonds in an amount not to exceed \$640,000,000. The Refunding
10 Bonds will be secured in the same manner as any previously issued Revenue Bonds.

11 16. A substantial portion of the proceeds from the sale of the Refunding
12 Bonds will be invested in obligations of, or obligations the principal of which and interest
13 thereon are guaranteed by, the United States of America, which are scheduled to mature and
14 bear interest at such times and in such amounts so that the principal, interest, and call
15 premium, if any, on the Revenue Bonds will be paid when due or redeemed. The Revenue
16 Bonds will no longer be secured by net revenues from the District's electric system, but will
17 be secured and payable solely from the above-described investments. Under the Resolution
18 referred to in Paragraph 22 of this Application, and upon issuance of the Refunding Bonds,
19 the Revenue Bonds would no longer be considered outstanding debt of the District.
20 Depending on market conditions, other alternatives include crossover refundings and
21 economic defeasance.

22 Alternative Bond Products and Bond Derivatives

23 17. The District currently has outstanding two types of alternative bond
24 products, also known as bond derivatives. Alternative bond products are debt instruments that
25 provide bondholders an income stream based on the market, rather than a coupon rate. As
26 part of its 1993 Series C bond sale, the District issued \$36.0 million of Short Term Adjustable

1 Rate Securities ("STARS") and \$36.7 million of Short Term Rate Inverse Payment Exempt
2 Securities ("STRIPES"), of which \$26.6 million in the aggregate were outstanding as of
3 March 31, 2003. This balance totals slightly over one percent (1.0%) of the District's total
4 outstanding debt as of that date. The institutional bondholders investing in STARS earn a
5 variable rate of interest, which approximates the rate paid on short-term money market
6 instruments, while holders of STRIPES receive a return that moves inversely with changes in
7 short-term rates of interest. The values of both types of securities fluctuate as short-term
8 interest rates change. STARS appreciate as interest rates rise, while the value of STRIPES
9 depreciate, and vice versa. Irrespective of changes in interest rates, the coupon paid by the
10 District is a combined fixed rate of 5.05 percent.

11 18. The marketability of alternative bond products varies with investor
12 sentiment and market conditions at the time of the bond pricing, and the District cannot
13 currently say whether or not alternative bond products will be used in future bond sales.
14 However, the District will consider using alternative bond products if they will provide
15 greater potential for debt service savings to the District than the potential debt service
16 anticipated from the issuance of traditional fixed rate revenue bonds or refunding revenue
17 bonds. The following alternative products have been discussed in the past with the District's
18 Board of Directors: floating and inverse floating bonds, detachable call rights and indexed
19 bonds. All alternative bond products are revenue bonds that incorporate additional features
20 that are attractive to certain institutional investors. Any decision to use an alternative bond
21 product in a future sale shall be reviewed with the District's Board of Directors.

22 19. In its Decision No. 64253, the Commission limited the District's
23 capacity to issue bond derivatives to seven percent (7.0%) of the District's total capitalization.
24 To accommodate greater flexibility in financial planning, the District requests that the limit be
25 increased to comprise no more than 15 percent of its total capitalization.
26

General

20. The sales of the Revenue Bonds and the Refunding Bonds may be in several increments subsequent to the date the Commission Order authorizing the issuance of the Revenue Bonds and the Refunding Bonds becomes final. The timing, frequency and amount of the sale of each such increment of the Revenue Bonds and the Refunding Bonds will be determined by the District, depending upon construction needs and/or upon capital market conditions. It is proposed that the Revenue Bonds and the Refunding Bonds will mature within fifty years from the date of the bonds, as provided by A.R.S. §48-2466(A), and will be subject to redemption provisions determined by the District. The District will determine the interest to be borne for each increment, and the purchase price received by the District will be determined either at private sale by negotiations between the District and purchasers or underwriters, or at a publicly advertised, competitive sale on the basis of the best bid received. Pursuant to A.R.S. §48-2470(D), if the Board of Directors of the District determines that the sale of any increment of the Revenue Bonds or the Refunding Bonds will be privately negotiated, such sale will be subject to prior approval of a majority of the members of the Council of the District.

21. In the District's opinion, the purposes to which the proceeds of the Revenue Bonds and the Refunding Bonds are to be applied are generally set forth herein, and as specifically set forth in Paragraphs 9 through 16 of this Application, are in accordance with the lawful purposes for which the District was established under Title 48, Chapter 17, A.R.S., are within its power under such laws, are based on sound financial practices and are compatible with the public interest and with the proper performance by the District of service as an agricultural improvement district, and will not impair but will improve its ability to perform the service for which it was established. The District is further of the opinion that the issuance of the Revenue Bonds and the Refunding Bonds as herein contemplated is reasonably necessary and appropriate for the aforementioned purposes.

1 22. In connection with the issuance of the Revenue Bonds and the
2 Refunding Bonds, the Board of Directors of the District has adopted an Amended and
3 Restated Resolution Concerning Revenue Bonds, dated September 10, 2001, which became
4 effective as of January 11, 2003 (the "Resolution"), relating to the exercise of powers granted
5 by the Act. The Resolution pledges certain electric revenue of the District for the payment of
6 the principal of and interest on revenue bonds, including refunding revenue bonds, and,
7 subject to the applicable provisions thereof, on additional revenue bonds issued in the future.
8 A.R.S. §48-2468(A)(6) and Section 5.09 of the Resolution permit the District to issue
9 subordinate lien bonds, should such be necessary or advisable in connection with the issuance
10 of the Revenue Bonds or the Refunding Bonds. Any Revenue Bonds or Refunding Bonds
11 issued by the District would be issued pursuant to the Resolution (as it may be modified from
12 time to time) or a different resolution providing for a subordinate lien on the District's electric
13 revenue. A true copy of the Resolution, authenticated by certification of the Secretary of the
14 District, is attached hereto as Exhibit G. There have been no amendments to the Resolution.

15 23. With regard to the sale of each increment of the Revenue Bonds or the
16 Refunding Bonds, which sales may occur in fiscal year 2004 and thereafter, the District
17 proposes to file with the Commission, contemporaneously with each sale, the resolution
18 adopted by its Board of Directors specifically authorizing the sale of each increment, and, in
19 the event of a private sale, the form of underwriting agreement, if any, and the resolution
20 adopted by its Council, approving such sale.

21 24. The District competes with many other governmental bodies for capital
22 funds in the tax-exempt market. Market access is subject to change due to economic and
23 political events and psychological perceptions. The District needs flexibility in structuring the
24 sale, terms and conditions of the Revenue Bonds and the Refunding Bonds to be able to
25 successfully raise capital during periods of reduced market access. The District has statutory
26 authority to sell, tender for or exchange bonds under contractual terms determined by its

1 Board of Directors to be in the best interest of the District, including bonds having variable
2 interest rates and put features, and bonds that carry with them an optional warrant to purchase
3 additional bonds on similar terms and conditions in the future. The District will consider
4 these and other techniques, if deemed in the best interest of the District, and if recommended
5 by the District's financial advisors. The District considers it essential that such financing
6 techniques and structures be available to it at a time when such techniques hold promise of
7 considerable benefit to the District and its customers. To the extent the procedures set forth
8 herein are found by the Commission to be reasonable and proper, the District requests that it
9 be authorized to issue (i) the Revenue Bonds for construction purposes in an aggregate
10 principal amount of not to exceed \$580,000,000, and (ii) the Refunding Bonds to refund the
11 Revenue Bonds, in an aggregate principal amount of not to exceed \$640,000,000, and to pay
12 expenses incurred in connection therewith, all in the manner described herein without
13 necessity of seeking further Commission approval. The District further requests that the
14 limitation on its issuance of alternative bond products be increased to 15 percent of its total
15 capitalization.

16 25. To assist the Commission in its consideration of this Application, the
17 District has attached to this Application Exhibits H through O, which provide additional
18 background information. Exhibit H summarizes all outstanding bonds of the District as of
19 January 2, 2003. Exhibit I explains how the District used existing authorization to issue
20 revenue bonds in fiscal year (2003). Exhibit J explains how the District used existing
21 authorization to issue refunding revenue bonds in fiscal years 2002 and 2003. Exhibit K is a
22 copy of the Salt River Project 2002 Annual Report, which includes the combined financial
23 statements for the District and its affiliate, the Salt River Valley Water Users' Association (the
24 "Association"). Exhibit L is a copy of the unaudited combined balance sheets of the District
25 and the Association as of January 31, 2003 and April 30, 2002. Exhibit M is a copy of the
26 unaudited combined statement of electric and water operations for the District and the

1 Association for the nine months ended January 31, 2003. Exhibit N is the District's most
2 recent Official Statement, dated November 8, 2002, that has been filed with nationally
3 recognized municipal securities information repositories. Exhibit O provides copies of (a)
4 Standard and Poor's credit profile of the District, dated October 14, 2002, and (b) Moody's
5 Investors Service credit report of the District, dated October 10, 2002.

6 26. The District requests that notice of the filing of this Application be
7 given in conformity with A.R.S. §40-302. If requested to do so by or on behalf of the
8 Commission, the District, pursuant to A.R.S. §48-2465(B), will reimburse the Commission
9 for any additional costs necessarily incurred by it in preparing and distributing such notice or
10 any other additional costs which are necessarily incurred by the Commission in connection
11 with securing the order for which this Application is made.

12 27. The District requests that the order for which this Application is
13 herewith made be promptly issued and become effective immediately upon the issuance
14 thereof, because of the current monetary requirements to provide certain improvements
15 needed to carry out its service responsibilities, the current status of financial market
16 conditions in general, which make timing a critical factor in proper and successful marketing
17 of the Revenue Bonds and the Refunding Bonds, and the timing of informational filings with
18 the bond rating agencies. The District requests, should the Commission deem it appropriate,
19 summary disposition of this Application.

20 WHEREFORE, the District asks that your Honorable Commission:

21 Cause notice of the filing of this Application to be given as above requested;
22 hold such hearing or hearings and make such inquiry or investigation as the Commission may
23 deem of assistance or, in the alternative, pursuant to A.R.S. §40-302(A), determine a hearing
24 is not necessary and make summary disposition of this Application; make the finding as
25 required by A.R.S. §40-302, relative to the issuance of the Revenue Bonds and the Refunding
26 Bonds as herein discussed; and thereafter make an immediately effective order authorizing the

1 District to issue (i) the Revenue Bonds for construction purposes in an amount not exceeding
2 \$580,000,000, and (ii) the Refunding Bonds to refund the Revenue Bonds in an amount not
3 exceeding \$640,000,000; to sell same in the manner herein contemplated and to pay financing
4 costs and expenses related thereto.

5 DATED at Tempe, Arizona this 14th day of April 2003.

6
7 SALT RIVER PROJECT AGRICULTURAL
8 IMPROVEMENT AND POWER DISTRICT

9 By Dean K. Yee
10 Dean K. Yee
11 Manager, Financial Services
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STATE OF ARIZONA)
)ss
County of Maricopa)

Dean K. Yee, being first duly sworn, deposes and says that he is the Manager, Financial Services of Salt River Project Agricultural Improvement and Power District, that he has read the foregoing Application and knows the contents thereof, and that the same is true in substance and in form, except as to matters therein stated on information and belief, and as to those he believes them to be true.

Dear Kye

Dean K. Yee, Manager, Financial Services

Subscribed and sworn to before me this 14th day of April 2003.

Cynthia M Brown
Notary Public

Notary Public

My Commission expires:

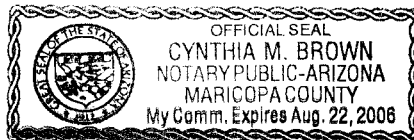


EXHIBIT A



CERTIFICATE

I, TERRILL A. LONON, the duly appointed, qualified, and acting Corporate Secretary of the Salt River Project Agricultural Improvement and Power District ("SRP"), a special district under Title 48 of the Arizona Revised Statutes, DO HEREBY CERTIFY that attached hereto is a true and correct copy of a resolution entitled **"A SERIES RESOLUTION AUTHORIZING THE ISSUANCE OF NOT EXCEEDING \$580,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT,"** as adopted by a majority of the SRP Board of Directors at a meeting held on April 7, 2003, at which a quorum was present and voted, and that no change, revision, amendment, or addendum has been made subsequent thereto.

IN WITNESS WHEREOF, I have set my hand and seal of the Salt River Project Agricultural Improvement and Power District, this 10th day of April, 2003

A handwritten signature in cursive script that reads "Terrill A. Lonon". The signature is written in dark ink and is positioned above a horizontal line.

Terrill A. Lonon
Corporate Secretary



**A SERIES RESOLUTION AUTHORIZING THE ISSUANCE OF
NOT EXCEEDING \$580,000,000 SALT RIVER PROJECT ELECTRIC
SYSTEM REVENUE BONDS OF THE SALT RIVER PROJECT
AGRICULTURAL IMPROVEMENT AND POWER DISTRICT**

WHEREAS, the Board of Directors (the "Board") of the Salt River Project Agricultural Improvement and Power District (the "District"), by its Supplemental Resolution Dated September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003 (the "Resolution"), has created and established an issue of Salt River Project Electric System Revenue Bonds ("Revenue Bonds"), and

WHEREAS, the Resolution authorizes the issuance of such Revenue Bonds in one or more series pursuant to a "Series Resolution" authorizing such series, and

WHEREAS, as of March 1, 2003, there are outstanding approximately \$2,753,800,000 in Revenue Bonds, and

WHEREAS, the Board, by resolution dated June 5, 2000, adopted a Series Resolution (the "2000 Series Resolution") authorizing the issuance of not to exceed \$900,000,000 in Revenue Bonds, of which the District made application for and obtained approval from the Arizona Corporation Commission ("ACC") to issue not to exceed \$675,000,000 in Revenue Bonds, leaving \$225,000,000 in Revenue Bonds authorized by the 2000 Series Resolution for which approval has not yet been sought from the ACC (the "Remaining Authorization under the 2000 Series Resolution");

WHEREAS, the Board has determined that it is necessary and required that the District be authorized to issue, from time to time, an additional not to exceed \$580,000,000 in Revenue Bonds, pursuant to the Resolution or pursuant to a different resolution providing for a subordinate lien on the District's Revenues, to provide monies to carry out the purposes of the District;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Salt River Project Agricultural Improvement and Power District as follows:

ARTICLE I

Authority and Definitions

SECTION 1. Series Resolution. This Series Resolution is adopted in accordance with the provisions of Article II of the Resolution and pursuant to the authority contained in the Act.

SECTION 2. Definitions. All terms which are defined in Article I of the Resolution shall have the same meanings in this Series Resolution as such terms are given in Article I of the Resolution.

ARTICLE II

Authorization of Revenue Bonds

SECTION 1. Principal Amount and Series. Pursuant to the provisions of the Resolution, a series of bonds is hereby authorized in the aggregate principal amount of not exceeding \$580,000,000 (the "Bonds"). The Bonds shall be designated as "Salt River Project Electric System Revenue Bonds." The Bonds may have a subordinate or parity lien on the Revenues of the District as shall be provided by subsequent resolutions of the Board of Directors of the District. Such authorization is in addition to the Remaining Authorization under the 2000 Series Resolution.

SECTION 2. Purposes. The Bonds are being issued for the purpose or purposes authorized pursuant to the Act including, without limitation, paying or reimbursing the Cost of Construction of improvements, replacements, additions, extensions and betterments of the Electric System.

SECTION 3. Maturities, Interest Rates, Redemption Provisions and other Details. The Bonds shall be dated, shall mature not more than fifty years from the date thereof, shall bear interest at such rate or rates, or discounted interest, not in excess of the legal rate, shall be secured by either a parity or subordinated lien on the Revenues of the District, shall be subject to redemption or tender prior to maturity, shall be numbered, shall be payable at such place or places, within or without the state, shall have such parity and reserve requirements, shall be in such denominations, shall be sold at public or private sale and in such manner, at such times and in such amounts, shall be executed, shall be in such form and shall contain such other provisions, all as authorized by law and as provided by subsequent resolutions of the Board of Directors of the District.

ARTICLE III

Miscellaneous

SECTION 1. Effective Date. This Series Resolution shall take effect immediately.

EXHIBIT B



CERTIFICATE

I, TERRILL A. LONON, the duly appointed, qualified, and acting Corporate Secretary of the Salt River Project Agricultural Improvement and Power District ("SRP"), a special district under Title 48 of the Arizona Revised Statutes, DO HEREBY CERTIFY that attached hereto is a true and correct copy of a resolution entitled **"A SERIES RESOLUTION AUTHORIZING THE ISSUANCE OF NOT EXCEEDING \$640,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REFUNDING REVENUE BONDS OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT,"** as adopted by a majority of the SRP Board of Directors at a meeting held on April 7, 2003, at which a quorum was present and voted, and that no change, revision, amendment, or addendum has been made subsequent thereto.

IN WITNESS WHEREOF, I have set my hand and seal of the Salt River Project Agricultural Improvement and Power District, this 10th day of April, 2003.



A handwritten signature in dark ink, reading "Terrill A. Lonon", is written over a horizontal line.

Terrill A. Lonon
Corporate Secretary

**A SERIES RESOLUTION AUTHORIZING THE ISSUANCE OF
NOT EXCEEDING \$640,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM
REFUNDING REVENUE BONDS OF THE SALT RIVER PROJECT
AGRICULTURAL IMPROVEMENT AND POWER DISTRICT**

WHEREAS, the Board of Directors of the Salt River Project Agricultural Improvement and Power District (the "District"), by its Supplemental Resolution Dated September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003 (the "Resolution"), has created and established an issue of Salt River Project Electric System Revenue Bonds (the "Revenue Bonds"), and

WHEREAS, the Resolution authorizes the issuance of such Revenue Bonds in one or more series pursuant to a "Series Resolution" authorizing such series, and

WHEREAS, as of March 1, 2003, there are outstanding approximately \$2,753,800,000 in Revenue Bonds, and

WHEREAS, the Board, by resolution dated June 5, 2000, adopted a Series Resolution (the "2000 Series Resolution") authorizing the issuance of not to exceed \$990,000,000 in Salt River Project Electric System Refunding Revenue Bonds ("Refunding Revenue Bonds"), of which the District made application for and obtained approval from the Arizona Corporation Commission ("ACC") to issue not to exceed \$750,000,000 in Refunding Revenue Bonds, leaving \$240,000,000 in Refunding Revenue Bonds authorized by the 2000 Series Resolution for which approval has not yet been sought from the ACC (the "Remaining Authorization under the 2000 Series Resolution");

WHEREAS, the Board of Directors of the District has determined that it is necessary and required that the District be authorized to issue, from time to time, and additional not to exceed \$640,000,000 in Refunding Revenue Bonds, pursuant to the Resolution or pursuant to a different resolution providing for a subordinate lien on the District's Revenues, to provide monies to refund any of the District's outstanding Bonds heretofore or hereafter issued pursuant to the Resolution;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Salt River Project Agricultural Improvement and Power District as follows:

ARTICLE I

Authority and Definitions

SECTION 1. Series Resolution. This Series Resolution is adopted in accordance with the provisions of Article II of the Resolution and pursuant to the authority contained in the Act.

SECTION 2. Definitions. All terms which are defined in Article I of the Resolution shall have the same meanings in this Series Resolution as such terms are given in Article I of the Resolution.

ARTICLE II

Authorization of Refunding Revenue Bonds

SECTION 1. Principal Amount and Series. Pursuant to the provisions of the Resolution, a series of bonds is hereby authorized in the aggregate principal amount of not exceeding \$640,000,000 (the "Refunding Bonds"). The Refunding Bonds shall be designated as "Salt River Project Electric System Refunding Revenue Bonds." The Refunding Bonds may have a subordinate or parity lien on the Revenues of the District as shall be provided by subsequent resolutions of the Board of Directors of the District. Such authorization is in addition to the Remaining Authorization under the 2000 Series Resolution.

SECTION 2. Purposes. The Refunding Bonds are being issued to provide monies to refund any Bonds heretofore or hereafter issued and to pay expenses incurred in connection therewith.

SECTION 3. Maturities, Interest Rates, Redemption Provisions and other Details. The Refunding Bonds shall be dated, shall mature not more than fifty years from the date thereof, shall bear interest at such rate or rates, or discounted interest, not in excess of the legal rate, shall be secured by either a parity or subordinated lien on the Revenues of the District, shall be subject to redemption or tender prior to maturity, shall be numbered, shall be payable at such place or places, within or without the state, shall have such parity and reserve requirements, shall be in such denominations, shall be sold at public or private sale and in such manner, at such times and in such amounts, shall be executed, shall be in such form and shall contain such other provisions, all as authorized by law and as provided by subsequent resolutions of the Board of Directors of the District.

ARTICLE III

Miscellaneous

SECTION 1. Effective Date. This Series Resolution shall take effect immediately.

EXHIBIT C



CERTIFICATE

I, TERRILL A. LONON, the duly appointed, qualified, and acting Corporate Secretary of the Salt River Project Agricultural Improvement and Power District ("SRP"), a special district under Title 48 of the Arizona Revised Statutes, DO HEREBY CERTIFY that attached hereto is a true and correct copy of a resolution entitled **"RESOLUTION AUTHORIZING APPLICATION TO THE ARIZONA CORPORATION COMMISSION FOR AUTHORITY TO ISSUE NOT EXCEEDING \$580,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS AND NOT EXCEEDING \$640,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REFUNDING REVENUE BONDS,"** as adopted by a majority of the SRP Board of Directors at a meeting held on April 7, 2003, at which a quorum was present and voted, and that no change, revision, amendment, or addendum has been made subsequent thereto.

IN WITNESS WHEREOF, I have set my hand and seal of the Salt River Project Agricultural Improvement and Power District, this 10th day of April, 2003.



A handwritten signature in cursive script, reading "Terrill A. Lonon", is written over a horizontal line.

Terrill A. Lonon
Corporate Secretary

**RESOLUTION AUTHORIZING APPLICATION TO THE ARIZONA
CORPORATION COMMISSION FOR AUTHORITY TO ISSUE NOT
EXCEEDING \$580,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM
REVENUE BONDS AND NOT EXCEEDING \$640,000,000 SALT RIVER
PROJECT ELECTRIC SYSTEM REFUNDING REVENUE BONDS**

WHEREAS, the Board of Directors of the Salt River Project Agricultural Improvement and Power District (the "District"), by its Supplemental Resolution Dated September 10, 2001 Authorizing an Amended and Restated Resolution Concerning Revenue Bonds, which became effective January 11, 2003 (the "Resolution"), has created and established an issue of Salt River Project Electric System Revenue Bonds (the "Revenue Bonds"), and

WHEREAS, the Resolution authorizes the issuance of such Revenue Bonds in one or more series pursuant to a "Series Resolution" authorizing such series, and

WHEREAS, the Board of Directors, on this date, reviewed a need for and approved Series Resolutions authorizing the issuance of not exceeding \$580,000,000 Salt River Project Electric System Revenue Bonds and not exceeding \$640,000,000 Salt River Project Electric System Refunding Revenue Bonds, respectively, and

WHEREAS, such Revenue Bonds and Refunding Revenue Bonds may be issued pursuant to the Resolution or pursuant to a different resolution providing for a subordinate lien on the District's Revenues, and

WHEREAS, pursuant to Title 48, Chapter 17, Article 7 of the Arizona Revised Statutes, Section 48-2465.B, the District must secure an order from the Arizona Corporation Commission (the "ACC") authorizing the issuance of revenue bonds and refunding revenue bonds;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Salt River Project Agricultural Improvement and Power District hereby authorizes the filing of an application by the Chief Financial Executive and Associate General Manager, Commercial and Customer Services, or the Manager of Financial Services, with the ACC for an order authorizing the issuance of (i) \$580,000,000 in Salt River Project Electric System Revenue Bonds and (ii) \$640,000,000 in Salt River Project Electric System Refunding Revenue Bonds, or such lesser amounts as they shall determine to be necessary to meet the financial needs of the District.

EXHIBIT D

Exhibit D

Salt River Project Agricultural Improvement and Power District
Estimated Capital Expenditures
For Fiscal Years 2004-2009
(\$000)

	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	TOTAL
Energy	\$ 297,376	\$ 152,794	\$ 69,853	\$ 88,155	\$ 74,992	\$ 34,960	\$ 718,130
Transmission	36,937	42,046	48,438	47,024	41,680	24,141	240,266
Distribution	146,245	163,150	167,353	177,370	176,892	182,563	1,013,572
Corporate	61,334	33,780	32,074	29,572	31,738	34,233	222,731
Water	19,844	19,743	23,181	22,565	21,665	21,641	128,638
Contingency Allowance	21,000	36,000	41,000	46,000	51,000	55,000	250,000
Total	\$ 582,737	\$ 447,513	\$ 381,899	\$ 410,686	\$ 397,965	\$ 352,537	\$ 2,573,337

EXHIBIT E

Exhibit E

Salt River Project Agricultural Improvement and Power District Example of Refunding Bond Sale – 2002 Series A

Sources:

2002 Series A, Electric System Refunding Revenue Bonds	\$432,560,000
Original Issue Premium (Net)	7,378,360
Equity Contribution	5,556,700
Funds from Debt Service Account	4,287,370
Released Debt Reserve Monies	<u>658,503</u>
TOTAL	<u>\$450,440,933</u>

Uses:

Restricted Escrow	\$447,357,077
Underwriter's Discount	2,633,187
Cost of Issuance	<u>450,669</u>
TOTAL	<u>\$450,440,933</u>

EXHIBIT F

Exhibit F

Salt River Project Agricultural Improvement and Power District Summary of Reduction in Debt Service Requirements An Example of Refunding Bonds – 2002 Series A

Total Existing Debt Service	Refunded Debt Service*	2002 Series A Debt Service	Total Debt Service After Refunding	Savings
\$4,102,856,162	(\$859,726,413)	\$838,329,669	\$4,081,459,419	\$21,396,743

*Revenue Bonds Refunded

	<u>Principal Refunded</u>
1979 Series B, Term Bond	\$ 1,890,000
1986 Series C, Term Bond	5,065,000
1991 Series A, Serial and Term Bonds	61,565,000
1992 Series C, Serial and Term Bonds	139,605,000
1992 Series D, Term Bonds	177,980,000
1993 Series A, Term Bonds	6,520,000
1993 Series B, Serial and Term Bonds	28,735,000
1993 Series C, Serial Bonds	6,635,000
1997 Series A, Serial and Term Bonds	<u>9,375,000</u>
Total Principal	<u>\$ 437,370,000</u>

EXHIBIT G

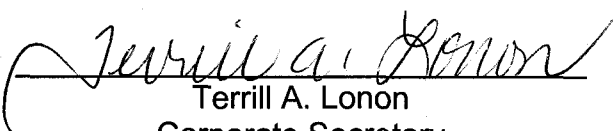


CERTIFICATE

I, TERRILL A. LONON, the duly appointed, qualified, and acting Corporate Secretary of the Salt River Project Agricultural Improvement and Power District (the "District"), a special district under Title 48 of the Arizona Revised Statutes, DO HEREBY CERTIFY that attached hereto is a true and correct copy of a **"SUPPLEMENTAL RESOLUTION DATED SEPTEMBER 10, 2001 AUTHORIZING AN AMENDED AND RESTATED RESOLUTION RELATING TO THE EXERCISE OF POWERS GRANTED BY ARIZONA REVISED STATUTES, ARTICLE 7, CHAPTER 17, TITLE 48; CREATING AND ESTABLISHING AN ISSUE OF SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS OF SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT; PROVIDING FOR THE ISSUANCE FROM TIME TO TIME OF SAID BONDS; PROVIDING FOR THE PAYMENT OF PRINCIPAL AND INTEREST ON SAID BONDS AND PROVIDING FOR THE RIGHTS OF THE HOLDERS THEREOF"** which the Board of Directors of the District adopted at a meeting held on September 10, 2001, at which a quorum was present and voted, and that no change, revision, amendment, or addendum has been made subsequent thereto.

IN WITNESS WHEREOF, I have set my hand and seal of the Salt River Project Agricultural Improvement and Power District, this 10th day of April, 2003.




Terrill A. Lonon
Corporate Secretary

**SUPPLEMENTAL RESOLUTION DATED SEPTEMBER 10,
2001 AUTHORIZING AN AMENDED AND RESTATED
RESOLUTION RELATING TO THE EXERCISE OF
POWERS GRANTED BY ARIZONA REVISED STATUTES,
ARTICLE 7, CHAPTER 17, TITLE 48; CREATING AND
ESTABLISHING AN ISSUE OF SALT RIVER PROJECT
ELECTRIC SYSTEM REVENUE BONDS OF SALT RIVER
PROJECT AGRICULTURAL IMPROVEMENT AND
POWER DISTRICT; PROVIDING FOR THE ISSUANCE
FROM TIME TO TIME OF SAID BONDS; PROVIDING FOR
THE PAYMENT OF PRINCIPAL AND INTEREST ON SAID
BONDS AND PROVIDING FOR THE RIGHTS OF THE
HOLDERS THEREOF.**

WHEREAS, Salt River Valley Water Users' Association (hereinafter called the "Association") was duly incorporated February 9, 1903, under the General Corporation Laws of the Territory of Arizona to furnish water for irrigation, power for domestic and ordinary purposes, and to provide drainage to and for the lands appurtenant to the shares held by the members of said Association, and was authorized to construct and operate, or to contract with the United States of America for the construction and operation of dams, power plants, transmission lines, roads, canals, and other facilities incident to the storage, production, distribution and operation of irrigation, water, power and drainage works for the benefit of said lands, the area including all said lands served and benefited by such works and improvements being known as the Salt River Project; and

WHEREAS, said Association by contract entered into with the United States of America agreed to act as Agent for the United States of America to collect from the owners of said lands in the Salt River Project moneys due the United States of America for the construction and operation of the works constructed and operated in connection with said Salt River Project and further agreed as Agent for the United States of America to maintain, operate, complete, improve and extend such works, and said Association, in furtherance of the objects for which it was incorporated, expended and undertook the payment of certain amounts of money for the construction, by it and by the United States of America, of dams, power plants, canals, ditches, pumping plants, pipe lines and other properties and improvements, and for said purposes issued its bonds and assumed the payment of bonds issued by certain underlying agricultural improvement districts therefor and thereafter incurred further indebtedness for the improvements and replacements of the structures and equipment necessary and useful for providing power for the use of the owners and occupants of said lands within the exclusion lines of the Salt River Project; and

WHEREAS, all of the lands subscribed to the Articles of Incorporation of said Salt River Valley Water Users' Association and within the exclusion lines of the Salt River Project were organized on January 25, 1937 under the laws of the State of Arizona as an agricultural improvement district and as a political

subdivision and body politic and corporate known and designated as Salt River Project Agricultural Improvement and Power District (hereinafter called the "District"); and

WHEREAS, said District, pursuant to authority of law, entered into that certain Agreement with said Association dated March 22, 1937, whereby said Association agreed to perform and comply with all of its contracts with the United States of America and to act as Agent of the United States of America in operating the Salt River Project for the benefit of this District; and

WHEREAS, by virtue of an amendment dated September 12, 1949, to that certain Agreement with said Association dated March 22, 1937, said District assumed the direct operation of the electric system of the Salt River Project, including all works on Salt River and its tributaries above Granite Reef Dam, and all property used or useful in the generation, transmission, and distribution of electrical power and energy, and all facilities used or useful solely in the operation and maintenance of said works and property, and the Association under said amendment assumed as Agent of said District the direct operation and maintenance of the irrigation and drainage system of the Salt River Project, including all canals and laterals used in delivery of water, all works for the diversion of water into said canals and laterals, all irrigation and drainage wells and pumping plants, and all other facilities used or useful exclusively in the operation and maintenance of said works and property, all to promote and assure further economy and efficiency in the operation and maintenance of said electric system of the Salt River Project, and to insure adequate and proper service of water to the users thereof within Salt River Project; and

WHEREAS, under Chapter 17, Title 48, Arizona Revised Statutes said District has the general power and authority to finance improvements and replacements of structures and equipment necessary and useful for providing power for the use of owners and occupants of the lands within the Salt River Project and to reduce the cost of irrigation, drainage and power to the owners of lands within the Salt River Project by the sale of surplus water or power, and to issue its bonds to accomplish such financing when deemed proper for the interest of said District and to pledge its revenues as security for the payment of said bonds; and

WHEREAS, it is determined necessary and in the best interests of the District to adopt a resolution relating to the exercise of powers granted by Article 7, Chapter 17, Title 48 of Arizona Revised Statutes, and to issue bonds at such times and in such amounts as the Board of Directors shall determine; and

WHEREAS, the District adopted its resolution entitled "RESOLUTION RELATING TO THE EXERCISE OF POWERS GRANTED BY ARIZONA REVISED STATUTES, ARTICLE 7, CHAPTER 17, TITLE 48; CREATING AND ESTABLISHING AN ISSUE OF SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS OF SALT RIVER PROJECT AGRICULTURAL

IMPROVEMENT AND POWER DISTRICT; PROVIDING FOR THE ISSUANCE FROM TIME TO TIME OF SAID BONDS; PROVIDING FOR THE PAYMENT OF PRINCIPAL AND INTEREST ON SAID BONDS AND PROVIDING FOR THE RIGHTS OF THE HOLDERS THEREOF" dated as of November 1, 1972, as amended through October 14, 1993 (the "Bond Resolution"); and

WHEREAS, the District desires to amend and restate the Bond Resolution in order to modernize the Bond Resolution so that it can efficiently operate in a changing electric utility industry and to provide the District with greater flexibility in the exercise of its powers thereunder; and

WHEREAS, pursuant to Section 11.02 of the Bond Resolution the District has the power and authority to amend the Bond Resolution by adoption of a supplemental resolution in accordance with the provisions of Section 11.03 of the Bond Resolution; and

WHEREAS, it is determined necessary and in the best interests of the District to adopt a supplemental resolution amending and restating the Bond Resolution in accordance with the provisions hereof; and

WHEREAS, this supplemental resolution shall become effective only upon satisfaction of the provisions for adoption of a supplemental resolution as set forth in Section 11.03 hereof;

NOW, THEREFORE, BE IT AND IT IS HEREBY RESOLVED by the Board of Directors of Salt River Project Agricultural Improvement and Power District that the Bond Resolution is hereby amended and restated as follows:

ARTICLE I DEFINITIONS AND STATUTORY AUTHORITY

1.01 Definitions. The following terms shall, for all purposes of the Resolution, have the following meanings:

Accountant's Report shall mean an opinion signed by an independent public accountant of recognized national standing or a firm of public accountants of recognized national standing, selected by the District, who may be the accountant or firm of accountants who regularly examine the financial statements of the District and the Association.

Accounting Practice shall mean generally accepted accounting principles appropriate to the electric utility industry.

Act shall mean Chapter 17, Title 48, Arizona Revised Statutes, as amended and supplemented from time to time.

Aggregate Debt Service for any Fiscal Year shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such year with respect to all Series.

Annual Budget shall mean the annual budget of the District, as amended or supplemented, adopted or in effect for a particular Fiscal Year.

Authorized Newspapers shall mean two newspapers printed in the English language, one of which is customarily published at least once a day for at least five days (other than legal holidays) in each calendar week and of general circulation in the City of Phoenix, Arizona, and the other of which is The Daily Bond Buyer, a newspaper specializing in financial matters published in the Borough of Manhattan, City and State of New York or in lieu of such publication in The Daily Bond Buyer, in some other newspaper of general circulation specializing in financial matters published in the Borough of Manhattan, City and State of New York.

Authorized Officer of the District shall mean the President, Vice President, Treasurer, Secretary or General Manager of the District or any officer or employee of the District authorized to perform specific acts or duties by resolution duly adopted by the District.

Bond or Bonds shall mean any bond or bonds delivered under and pursuant to the Resolution.

Bondholder or Holder of Bonds shall mean any person who shall be the bearer of any Bond or the registered owner of any Bond.

Construction Fund shall mean the Salt River Project Electric System Construction Fund established in Section 5.02.

Cost of Construction shall mean the District's cost of physical construction, costs of acquisition by or for the District of a Project for the Electric System, and costs of the District incidental to such construction or acquisition, the cost of any indemnity and surety bonds and premiums on insurance during construction, engineering expenses, legal fees and expenses, costs of financing, audits, fees and expenses of the Fiduciaries, amounts, if any, required by the Resolution or any Series Resolution to be paid into the Debt Service Fund upon the issuance of any Series of Bonds, payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the District (other than the Bonds) incurred for a Project for the Electric System, costs of machinery, equipment and supplies and initial working capital and reserves required by the District for the commencement of operation of a Project for the Electric System, and any other costs properly attributable to such construction or acquisition, as determined by Accounting Practice, and shall include reimbursement to the District for any such items of Cost of Construction

theretofore paid by the District. Any Series Resolution may provide for additional items to be included in the aforesaid Cost of Construction.

Counsel's Opinion shall mean an opinion signed by an attorney or firm of attorneys (who may be counsel to the District) selected by the District.

Debt Reserve Account Credit Facility shall mean a letter of credit, revolving credit agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution, having a rating in the highest rating category from a nationally recognized rating agency, which shall be deposited in the Debt Reserve Account and which provides for the payment of all or a portion of the Debt Reserve Requirement.

Debt Reserve Requirement shall mean, as of any date of calculation, an amount equal to one-half of the average annual interest cost for all Outstanding Bonds, which may be satisfied by the deposit of cash or securities in the Debt Reserve Account or by the deposit of a Debt Reserve Account Credit Facility in the Debt Reserve Account in lieu of or in partial substitution for cash or securities on deposit therein. For purposes of determining the average annual interest cost for any Outstanding Bonds which bear interest at a variable rate, the District shall assume the same average interest cost applicable to such Outstanding Bonds for the previous Fiscal Year.

Debt Service for any period shall mean, as of any date of calculation and with respect to any Series an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits in the Debt Service Account in the Debt Service Fund made from Bond proceeds, and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, if there shall be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment). Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Debt Service Fund shall mean the Salt River Project Electric System Debt Service Fund established in Section 5.02, including the Debt Service Account and Debt Reserve Account created therein.

Defeasance Securities shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of District funds:

(i) Any security which is (a) a direct obligation of or unconditionally guaranteed by, the United States of America or the State of Arizona or (b) an obligation of an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which is not callable or redeemable at the option of the issuer thereof;

(ii) Any depositary receipt issued by a bank as custodian with respect to any Defeasance Securities which are specified in clause (i) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal or interest on any such Defeasance Securities which are so specified and held, by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any such Defeasance Securities which are so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the Defeasance Securities or the specific payment of principal or interest evidenced by such depositary receipt;

(iii) Certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances whose maturity value shall not be greater than 1/25 of the capital and surplus of the accepting bank or commercial paper issued by the parent holding company of any such bank which at the time of investment has an outstanding unsecured, uninsured and unguaranteed debt issue rated in the highest short term rating category by a nationally recognized rating agency;

(iv) Any obligation of any state or political subdivision of a state or of any agency or instrumentality of any state or political subdivision ("Municipal Bond") which Municipal Bond is fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holder of the Municipal Bond, and which Municipal Bond is rated in the highest rating category by at least two nationally recognized rating agencies, and provided, however, that such Municipal Bond is accompanied by (1) a Counsel's Opinion to the effect that such Municipal Bond will be required for the purposes of the investment being made therein and (2) a report of a nationally recognized independent certified account verifying that the moneys and obligations so segregated are sufficient to pay the principal of, premium, if any, and interest on the Municipal Bond; and

(v) Any other security designated in a Series Resolution as Defeasance Securities for purposes of defeasing the Bonds authorized by such Series Resolution.

Depository shall mean any bank or trust company selected by the District as a depository of moneys and securities held under the provisions of the Resolution, and may include the Trustee.

District shall mean the Salt River Project Agricultural Improvement and Power District, a body politic and corporate organized and existing under the laws of the State of Arizona, including the Act.

Electric System shall mean properties and assets to which legal title is vested in the District and was so vested on the date of adoption of this Resolution and all properties and assets acquired by the District as renewals and replacements, additions and expansion, and improvements thereto, as recorded in the books of the District pursuant to Accounting Practices, but shall not include properties and assets that may be hereafter purchased, constructed or otherwise acquired by the District as a separate system or facility, the revenue of which may be pledged to the payment of bonds or other forms of indebtedness issued to purchase, construct or otherwise acquire such separate system or facility and shall not include properties or assets charged to Irrigation Plant or any Separately Financed Project.

Event of Default shall have the meaning given to such term in Section 8.01.

Fiduciary or Fiduciaries shall mean the Trustee, the Paying Agents, or any or all of them, as may be appropriate.

Fiscal Year shall mean the period commencing May 1 and ending April 30 for each twelve-month period or any other consecutive twelve-month period designated by the District from time to time.

General Fund shall mean the Salt River Project Agricultural Improvement and Power District General Fund which has been created and maintained pursuant to the Act.

Investment Securities shall mean any securities if and to the extent the same are at the time legal for investment of District funds.

Irrigation Plant shall mean all land and land rights, structures, facilities and equipment used or usable by the District or the Salt River Valley Water Users' Association solely for the development, storage, transportation, distribution and delivery of water to the owners or occupants of the lands within the Salt River Project having rights thereto or to anyone acting on behalf thereof pursuant to contracts with the Salt River Valley Water Users' Association or the District.

Operating Expenses shall mean the District's expenses of operating the Electric System, including, without limiting the generality of the foregoing, all costs of purchased power, operation, maintenance, generation, production, transmission, distribution, repairs, replacements, engineering and transportation required for the operation of the Electric System (including any payments made pursuant to a "take-or-pay" electric supply or energy contract that obligates the District to pay for fuel, energy or power, so long as fuel or energy is delivered or made available for delivery), administrative and general, audit, legal, financial, pension, retirement, health, hospitalization, insurance, taxes and any other expenses actually paid or accrued, without limitation, expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice and any other expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice, and any other expenses incurred or payments by the District under the provisions of the Resolution or in discharge of obligations required to be paid by local, state or federal laws, all to the extent properly allocable to the Electric System under Accounting Practice, including those expenses the payment of which is not immediately required, such as those expenses related to the funding of a reserve in the Operating Fund.

Operating Expenses shall not include any costs or expenses for falling water used in hydroelectric operations of the District, charges for depreciation, voluntary payments in lieu of taxes and operation, maintenance, repairs, replacement and construction of the Irrigation Plant.

Outstanding when used with reference to Bonds, shall mean, as of any date, Bonds theretofore or thereupon being authorized and delivered under the Resolution except:

(i) Any Bonds cancelled by the Trustee at or prior to such date;

(ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provisions satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to Article III or Sections 4.06 or 11.06; and

(iv) Bonds deemed to have been paid as provided in subsection 2 of Section 12.01.

Paying Agent shall mean any bank or trust company designated as paying agent for the Bonds of any Series, and its successor or successors hereafter appointed in the manner provided in the Resolution.

Principal Installment shall mean, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

Project shall mean the purchase, replacement, construction, leasing or acquisition of any real or personal property or interest therein, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire, or the improvement, reconstruction, extension or addition to any real or personal property, works or facilities owned or operated by the District, or any program of development involving real or personal property, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire or the improvement, reconstruction, extension or addition to such program.

Put Bonds shall mean Bonds which, by their terms, may be tendered by and at the option of the owner thereof, or are subject to a mandatory tender, for payment or purchase prior to the stated maturity or redemption date thereof.

Rate Stabilization Fund shall mean the Salt River Project Electric System Rate Stabilization Fund established in Section 5.02.

Redemption Price shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Resolution.

Refunding Bonds shall mean all Bonds, whether issued in one or more Series, issued and delivered pursuant to Section 2.05 and thereafter delivered in lieu of or in substitution for such Bonds pursuant to Article III or Sections 4.06 or 11.06.

Resolution shall mean this Amended and Restated Resolution Concerning Revenue Bonds as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms hereof.

Revenue Fund shall mean the Salt River Project Electric System Revenue Fund established in Section 5.02.

Revenues shall mean (i) all revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System and (ii) interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Resolution and paid into the Revenue Fund, but not including any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project and not including any federal or state grant monies the receipt of which is conditioned upon their expenditure for a particular purpose.

Revenues Available For Debt Service for any Fiscal Year or period of 12 calendar months shall mean all Revenues less Operating Expenses for such Fiscal Year or period.

Separately Financed Project means any project described as such in Section 2.06.

Series shall mean all of the Bonds issued pursuant to a Series Resolution, and any Bonds thereafter delivered in lieu of or in substitution for such Bonds pursuant to Article III or Sections 4.06 or 11.06, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions. If a Series of Bonds is sold in installments, Series shall mean all the Bonds of such installment.

Series Resolution shall mean a resolution of the District authorizing the issuance of a Series of Bonds adopted by the District in accordance with Article II and any subsequent resolution of the District which provides for the sale of all or part of such Series of Bonds.

Sinking Fund Installment shall mean an amount so designated which is established pursuant to subsection (11) of Section 2.02.

Subordinated Indebtedness shall mean any evidence of debt referred to in, and complying with the provisions of, Section 5.09.

Supplemental Resolution shall mean any resolution supplemental to or amendatory of the Resolution, adopted by the District in accordance with Article X.

Trustee shall mean the trustee appointed pursuant to Article IX, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations and governmental entities.

1.02 Authority for the Resolution. The Resolution is adopted pursuant to the provisions of the Act.

1.03 Resolution to Constitute Contract. In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued hereunder by those who shall hold the same from time to time, the Resolution shall be deemed to be and shall constitute a contract between the District and the Holders from time to time of the Bonds and the pledge made in the Resolution and the covenants and agreements therein set forth to be performed on behalf of the District shall be for the equal benefit, protection and security of the Holders of any and all of the Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in or permitted by the Resolution.

ARTICLE II AUTHORIZATION AND ISSUANCE OF BONDS

2.01 Authorization of Bonds. There is hereby established and created an issue of Bonds of the District to be known and designated as "Salt River Project Electric System Revenue Bonds", which Bonds may be issued as hereinafter provided without limitation as to amount except as provided in the Resolution or as may be hereafter limited by law. The Bonds shall not constitute general obligations of the District, and no Holder or Holders of any of the Bonds shall ever have the right to compel any exercise of the taxing powers of the District to pay the Bonds or the interest thereon, and each Bond issued pursuant to this Resolution shall recite in substance that said Bond, including interest thereon, is payable from the Revenues and other funds pledged to the payment thereof. All Bonds shall be equally and ratably secured without priority by reason of Series designation, number, date of Bonds, date of sale, execution, maturity, or delivery, by a lien on the Revenues and other funds pledged to the payment thereof, all in accordance with the provisions of the Act and this Resolution.

2.02 Provisions for Issuance of Bonds. The issuance of the Bonds may be authorized by a Series Resolution or Series Resolutions of the District adopted subsequent hereto, in one or more Series. The Bonds of each Series may be sold in one or more installments. The Bonds of each Series shall, in addition to the Title "Salt River Project Electric System Revenue Bonds", contain an appropriate Series designation. If a Series of Bonds is sold in one or more installments it shall, in addition to its Series designation, contain a designation distinguishing it from other installments of said Series.

Each Series Resolution authorizing the issuance of a Series of Bonds shall also specify or provide the manner of determining:

- (1) the authorized principal amount of such Series of Bonds;
- (2) the purposes for which the Bonds of such Series are being issued, which shall be only the payment or reimbursement of the Cost of Construction of a Project for the Electric System, or the refunding of obligations previously issued with respect to a Project for the Electric System, which obligations to be refunded shall be specified in such Series Resolution, or any other lawful purpose;
- (3) the date or dates, maturity date or dates and the interest payment date or dates, or the manner of determining the same;
- (4) the interest rate or rates, if any, or the manner of determining such rate or rates;
- (5) the denomination or denominations of the Bonds of such Series, provided that each Bond shall be in the denomination of \$5,000 or an integral multiple thereof, not exceeding the aggregate principal amount of the Bonds of such Series, or in the case of the sale of a Series of Bonds in installments such installment, maturing in the year of maturity of the Bond for which the denomination is to be specified or, in such other denominations as shall be provided in the Series Resolution;
- (6) the premiums, if any, to be paid upon the redemption of the Bonds of such Series, and the terms of such redemption;
- (7) the place or places of payment of the principal of and interest and redemption premium, if any, on the Bonds of such Series;
- (8) provisions for the sale or other disposition of the Bonds of such Series;

(9) the forms of the Bonds of such Series, and if the Bonds are Put Bonds, provisions regarding the tender for purchase thereof and payment of the purchase price thereof;

(10) the officers of the District directed to execute the Bonds of such Series by either manual or facsimile signature;

(11) the amount and due date of each Sinking Fund Installment for the Bonds of such Series, if any; and

(12) any other provisions deemed advisable by the District not in conflict with the provisions of this Resolution.

When a Series of Bonds is sold in installments, each such installment may have details, terms and provisions which differ from other installments of the same Series of Bonds, all as provided by Series Resolution.

Bonds shall be delivered in accordance with a Series Resolution but only upon receipt by the Trustee of:

(1) A Counsel's Opinion to the effect that (a) the District has the right and power under the Act to adopt the Series Resolution, and the Series Resolution has been duly and lawfully adopted by the District, is in full force and effect, and is valid and binding upon the Authority, and enforceable in accordance with its terms, and no other authorization for the Series Resolution is required; (b) the Series Resolution creates the valid pledge which it purports to create in the manner and to the extent provided therein; (c) the Bonds are valid, binding, direct and general obligations of the District, enforceable in accordance with their terms and the terms of the Series Resolution and entitled to the benefits of the Act, and such Bonds have been duly and validly authorized and issued in accordance with law and the Series Resolution; and (d) the District has good right and lawful authority under the Act to effectuate the purposes for which the proceeds of such Bonds will be utilized, subject, in the case of Bonds issued for other than refunding purposes, to obtaining such licenses, orders or other authorizations, if any, as, at the date of such Counsel's Opinion, may be required to be obtained from any agency or regulatory body having lawful jurisdiction in order to effectuate such purposes;

(2) A certified copy of the Series Resolution and certificate of determination of an Authorized Officer of the District, if any, authorizing such Bonds;

(3) A written order of the District as to the delivery of the Bonds, signed by an Authorized Officer of the District;

(4) Such further documents and moneys as are required by the Series Resolution authorizing such Bonds; and

(5) A certificate of an Authorized Officer of the District to the effect that, upon the delivery of the Bonds, the District will not be in default in the performance of the terms and provisions of the Resolution.

2.03 Dates, Form of Bonds and Bond Proceeds. 1. Each Series of Bonds shall mature on such dates and in such amounts, bear interest at such rate or rates payable on such dates, and be subject to redemption upon such terms all as provided in the Series Resolution authorizing the issuance of such Series of Bonds. All Bonds of each installment of a Series of like maturity shall be identical in all respects except as to denominations and numbers and in fully registered form without coupons.

2. The proceeds, including accrued interest, of the Bonds of each Series shall be applied simultaneously with the delivery of such Bonds, as follows:

(1) There shall be deposited in the Debt Service Account (i) an amount equal to the accrued interest on such Bonds to the date of such delivery, and (ii) if and to the extent provided in the Series Resolution authorizing such Bonds, such additional amount as may be necessary so that the sum deposited in such Account shall equal the unpaid interest accrued and to accrue on all Bonds issued for such Project to a date not later than the estimated date of completion of such Project, or such longer period as may be provided by the Series Resolution authorizing the issuance of such Series of Bonds;

(2) There shall be deposited in the Debt Reserve Account the amount, if any, provided for by the Series Resolution authorizing the issuance of such Series of Bonds; and

(3) The remaining balance shall be deposited in the Construction Fund.

2.04 Additional Bonds. 1. The District may from time to time issue Bonds pursuant to a Series Resolution which will rank on a parity with and be secured by an equal charge and lien on the Revenues, upon satisfaction of the conditions to the issuance of Bonds contained in Section 2.02, only if, (a) Revenues Available For Debt Service, adjusted as provided in paragraph 3 hereof, of any 12 consecutive calendar months out of the 24 calendar months next preceding the issuance of such proposed additional Bonds, are not less than one and ten hundredths ($1 \frac{10}{100}$ ths) times the maximum total Debt Service for any succeeding year on all Bonds which will be outstanding

immediately prior to the issuance of the proposed additional Bonds, and (b) the estimated Revenues Available For Debt Service, adjusted as provided in paragraph 4 hereof, for each of the five (5) Fiscal Years immediately following the issuance of such proposed additional Bonds are not less than one and ten hundredths (1 10/100ths) times the total, for each such respective Fiscal Year, of the Debt Service on all Bonds which will be outstanding immediately subsequent to the issuance of the proposed additional Bonds.

2. Prior to the issuance of any additional Bonds evidencing additional indebtedness, the payment of principal, interest and Redemption Price of which additional Bonds will be a lien on the Revenues on a parity with previously issued Series of Bonds, the District shall obtain a certificate of an Authorized Officer of the District evidencing full compliance with the provisions of clauses (a) and (b) of subsection 1 of this Section.

3. In determining the amount of Revenues Available For Debt Service for the purposes of clause (a) of subsection 1 of this Section, the Authorized Officer of the District may adjust the Revenues Available For Debt Service by adding thereto the following:

(i) in the event the District shall have acquired an operating utility or facility subsequent to the beginning of the 12 month period selected pursuant to clause (a) of subsection 1 of this Section, an estimate made by an Authorized Officer of the District of such additional Revenues Available For Debt Service for such 12 month period which would have resulted had such operating utility or facility been acquired at the beginning of such 12 month period;

(ii) in the event any adjustment of rates with respect to the Electric System shall have become effective subsequent to the beginning of the 12 month period selected pursuant to clause (a) of subsection 1 of this Section, an estimate made by an Authorized Officer of the District of such additional Revenues Available For Debt Service for such 12 month period which would have resulted had such rate adjustment been in effect for the entire period; and

(iii) an estimate made by an Authorized Officer of the District of the amounts from the Rate Stabilization Fund which have been transferred to pay Debt Service for the 12 month period selected pursuant to clause (a) of subsection 1 of this Section.

4. In determining the amount of estimated Revenues Available For Debt Service for the purpose of clause (b) of subsection 1 of this Section, the Authorized Officer of the District may adjust the estimated Revenues Available For Debt Service by adding thereto any estimated increase in revenue resulting from any increase in electric rates or any amount on deposit in the Rate Stabilization Fund which is expected to be transferred by the District to pay Debt Service or to offset any increase in electric rates, which, in the opinion of the

Authorized Officer of the District, are economically feasible, and reasonably considered necessary based on projected operations for such 5 year period.

5. The certificate required by subsection 2 of this Section shall be conclusive evidence and the only evidence required to show compliance with the provisions and requirements of this Section.

2.05 Refunding Bonds. 1. One or more Series of Refunding Bonds may be issued at any time to refund any part or all of the Bonds of any one or more Series then Outstanding. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Debt Service Fund required by the provisions of this Section or by the provisions of the Series Resolution authorizing such Bonds.

2. Refunding Bonds of each Series issued to refund any part or all of the Bonds of any one or more Series then Outstanding may be delivered by the District upon receipt by the Trustee of:

(a) Irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be refunded on a redemption date specified in such instructions;

(b) If the Bonds to be refunded are not by their terms subject to redemption within the next succeeding 60 days, irrevocable instructions to the Trustee, satisfactory to it, to make due publication of the notice provided for in Section 12.01 to the Holders of the Bonds being refunded;

(c) Either (i) moneys in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which moneys shall be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for the benefit of such Refunding Bonds until such time as such amount shall be assigned to the respective Holders of the Bonds to be refunded for payment of the Redemption Price of the Bonds to be refunded, together with accrued interest, on the redemption date, or (ii) Defeasance Securities in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of subsection 2 of Section 12.01 and any moneys required pursuant to said subsection 2, which Defeasance Securities and moneys shall be held in trust and used only as provided in subsection 2.05(c)(i) above; and

(d) Either (i) a certificate of an Authorized Officer of the District as required by paragraph 2 of Section 2.04 or (ii) a certificate of an

Authorized Officer of the District setting forth (1) the Aggregate Debt Service for the then current and each future Fiscal Year to and including the Fiscal Year next preceding the date of the latest maturity of any Bonds of any Series then Outstanding (A) with respect to the Bonds of all Series Outstanding immediately prior to the date of delivery of such Refunding Bonds, and (B) with respect to the Bonds of all Series to be Outstanding immediately thereafter, and (2) that the Aggregate Debt Service set forth for each Fiscal Year pursuant to (B) above is no greater than that set forth for such Fiscal Year pursuant to (A) above.

The proceeds, including accrued interest, of the Refunding Bonds of each such Series shall be applied simultaneously with the delivery of such Bonds in the manner provided in the Series Resolution authorizing such Bonds.

3. Any balance of the proceeds of Refunding Bonds not needed for the purposes provided in this Section or in the Series Resolution authorizing such Bonds may be used by the District, to the extent necessary, to pay any expenses incurred in connection with the issuance of such Refunding Bonds and, thereafter, any remaining balance not so needed by the District shall be deposited in the Revenue Fund.

2.06 Separately Financed Projects. Nothing in this Resolution shall prevent the District from authorizing and issuing bonds, notes or other obligations or evidences of indebtedness, other than Bonds, for any project authorized by the Act, or from financing any such project from other available funds (such project being referred to herein as a "Separately Financed Project"), if the debt service on such bonds, notes, or other obligations or evidences of indebtedness, if any, and the District's share of any operating expenses related to such Separately Financed Project, are payable solely from the revenues or other income derived from the ownership or operation of such Separately Financed Project.

ARTICLE III GENERAL TERMS AND PROVISIONS OF BONDS

3.01 Execution and Authentication. 1. Bonds of each Series shall be signed by the President or Vice President and the Secretary or Assistant Secretary of the District, either manually or by their printed, engraved or lithographed facsimile signatures, with the seal of the District or a facsimile thereof affixed thereto, as fixed by a Series Resolution. Each Bond of each Series shall be numbered and shall bear the date of its issue as provided by Series Resolution, so as to be distinguished from every other Bond. Bonds shall express on their faces that they are signed by authority of Article 7 of the Act. Bonds shall be valid and binding obligations notwithstanding that before the delivery thereof and payment therefor either or both of the persons whose signatures appear thereon shall have ceased to be such officers of the District.

All Bonds shall be payable as to interest, principal and premium, if any, in any coin or currency which, on the respective dates of payment thereof, shall be legal tender for the payment of public and private debts.

2. Except as otherwise provided in a Series Resolution with respect to the Series of Bonds authorized thereunder, Bonds shall bear thereon a certificate of authentication, in the form set forth in the Series Resolution authorizing such Series of Bonds, executed manually by the Trustee. Except as otherwise provided in a Series Resolution with respect to the Series of Bonds authorized thereunder, no Bond shall be entitled to any right or benefit under the Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of the District shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under the Resolution and that the Owner thereof is entitled to the benefits hereof.

3.02 Form, Ownership and Transfer of Bonds. Bonds of each Series may be issued in the form of fully registered Bonds without coupons, all as provided by the Series Resolution authorizing each Series. The District, the Trustee, the Paying Agents and any other person may treat the registered owner of any registered Bond, as the absolute owner of such Bond for the purpose of making payment thereof and for all other purposes, and neither the District nor the Trustee nor the Paying Agents shall be bound by any notice or knowledge to the contrary, whether such Bond shall be overdue or not. All payments of or on account of interest to any registered owner of any registered Bond (or to his registered assigns), and all payments of or on account of principal to the registered owner of any registered Bond, shall be valid and effectual and shall be a discharge of the District, the Trustee and the Paying Agents, in respect of the liability upon the Bond or claim for interest, as the case may be, to the extent of the sum or sums so paid.

3.03 Book-Entry-Only System. Notwithstanding any other provision of the Resolution, the District may employ a book-entry-only system of registration with respect to any Series of Bonds. The procedures regarding such registration shall be set forth in the Series Resolution authorizing such Series of Bonds and the District may, if necessary, amend the Resolution pursuant to Section 10.01 to achieve such book-entry-only registration system. Notwithstanding the foregoing, any provisions of the Resolution inconsistent with book-entry-only Bonds shall not be applicable to such book-entry-only Bonds.

3.04 Transfer of Registered Bonds. The Trustee shall keep, as Bond Registrar (hereinafter referred to as the "Registrar") at all times while any of the Bonds containing provisions for registration and transfer shall be outstanding and unpaid, books for the registration and transfer of such Bonds. Any registered Bond containing provisions for transfer may be transferred pursuant to the

provisions thereof at the principal office of the Registrar by surrender of such Bond for cancellation, accompanied by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner in person or by his duly authorized agent, and thereupon the District will issue and deliver at the office of the Registrar (or send by registered mail to the owner thereof at the owner's expense), in the name of the transferee or transferees, a new registered Bond, of like Series, form, interest rate, principal amount and maturity, dated so that there shall result no gain or loss of interest as a result of such transfer. To the extent of denominations authorized in respect of any such Bond by the terms thereof, or by the terms of this Resolution, one such registered Bond may be transferred for several such registered Bonds of like Series, form, interest rate and maturity, and for a like aggregate principal amount, and several such registered Bonds may be transferred for one or several such registered Bonds, respectively, of like Series, form, interest rate and maturity and for a like aggregate principal amount. If so provided in the Series Resolution, the District or the Bond Registrar shall not be obligated to transfer or exchange any registered Bonds of such Series during the 15 days preceding the date on which notice of redemption of a Bond is to be given or any Bond that has been called for redemption except the unredeemed portion of any Bond being redeemed in part.

3.05 Exchange of Bonds. 1. The registered owner of any registered Bond may at any time (provided such Bond shall not have been called for redemption) surrender the same at the principal office of the Registrar, with instruments of transfer satisfactory to the Registrar, and shall be entitled to receive in exchange therefor an equal aggregate principal amount of Bonds of the same Series, interest rate and maturity, of any one or more of the forms, the issue of which has been provided for with respect to such Series: and the District will issue and deliver at the principal office of the Registrar (or send by registered mail to the owner thereof at the owner's expense) the Bonds necessary to make such exchange.

2. Upon the issue of any registered Bond, the serial number or numbers covering a Bond or Bonds of the same Series, interest rate and maturity and an equal aggregate principal amount may be reserved. The serial number or numbers so reserved shall be endorsed on such registered Bond, which may also bear such endorsement or legend satisfactory to the Registrar as may be required to conform to usage or law with respect thereto.

3. Whenever registered Bonds with proper instruments of transfer shall be surrendered to the Registrar for exchange for Bonds of like Series, interest rate and maturity, the District shall issue and deliver at the principal office of the Registrar (or send by registered mail to the owner thereof at the owner's expense) in exchange a like principal amount of Bonds of the same Series, interest rate and maturity, bearing the serial number or numbers so

reserved upon the issuance of the registered Bond or Bonds so surrendered, so that no gain or loss of interest shall result from such exchange.

3.06 Charges for and Validity of Bonds Exchanged. 1. As a condition of any exchange or of any registration or transfer, the District at its option may require the payment of a sum sufficient to reimburse it for any stamp tax or other governmental charge that may be imposed thereon. All Bonds executed and delivered in exchange for or upon transfer of Bonds so delivered shall be valid obligations of the District evidencing the same obligation as the Bonds surrendered, and shall be entitled to all the benefits and protection of this Resolution and of the Series Resolution authorizing the issuance of such Bond to the same extent as the Bonds in exchange for or upon transfer of which they were executed and delivered.

2. Anything herein to the contrary notwithstanding, the cost of preparing each new registered Bond upon each exchange or transfer, and any other expenses of the District, or the Trustee, incurred in connection therewith (except any applicable governmental transfer or stamp tax or other charge) shall be paid by the District from the Revenue Fund as an Operating Expense.

3.07 Mutilated, Destroyed and Lost Bonds. In case any Bond shall at any time become mutilated or be lost or destroyed, the District in its discretion may execute and deliver a new Bond of like tenor and effect in exchange or substitution for and upon the surrender and cancellation of such mutilated Bond; or in lieu of or in substitution for such destroyed or lost Bond, or if such lost Bond shall have matured, instead of issuing a substitute therefor, the District may at its option pay the same without the surrender thereof. No such substitute Bond shall be issued unless the applicant for the issuance thereof shall furnish to the District evidence satisfactory to it of the destruction or loss of the original Bond, and the ownership thereof, and also an indemnity bond satisfactory to the District in an amount equal to twice the amount of each such Bond, and the applicant for the issuance thereof shall reimburse the District for the expenses incurred by the District in connection with the preparation, execution, issuance and delivery of the substitute Bond, and any such substitute Bond shall be equally and proportionately entitled to the security of this Resolution with all other Bonds issued. Notwithstanding anything to the contrary contained in this Section 3.07, the District may at its option waive the requirement of an indemnity bond and the payment expenses incurred by the District in connection with the delivery of a substitute Bond for any mutilated, destroyed or lost Bond.

3.08 Temporary Bonds. 1. Until the definitive Bonds of any Series are prepared, the District may execute, in the same manner as is provided in Section 3.01, and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds except as to the denominations thereof and as to exchangeability for registered Bonds, one or more temporary Bonds (which may be registrable as to principal and interest) substantially of the

tenor of the definitive Bonds in lieu of which such temporary Bond or Bonds are issued, without coupons, in denominations of \$5,000 or any multiples thereof authorized by the District, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. The District at its own expense shall prepare and execute and, upon the surrender of such temporary Bonds, for exchange and the cancellation of such surrendered temporary Bonds, the Trustee shall authenticate and, without charge to the Holder thereof, deliver in exchange therefor, definitive registered Bonds, of the same aggregate principal amount and series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to the Resolution.

2. All temporary Bonds surrendered in exchange either for another temporary Bond or Bonds or for a definitive Bond or Bonds shall be forthwith cancelled by the Trustee.

3.09 Cancellation and Destruction of Bonds. All Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be cremated or otherwise destroyed by the Trustee, who shall execute a certificate of cremation or destruction in duplicate by the signature of one of its authorized officers describing the Bonds so cremated or destroyed, and one executed certificate shall be filed with the District and the other executed certificate shall be retained by the Trustee.

ARTICLE IV REDEMPTION OF BONDS

4.01 Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to any Series Resolution shall be redeemable, upon published notice as provided in this Article IV, at such times, at such Redemption Prices and upon such terms in addition to the terms contained in this Article IV as may be specified in this Resolution or in the Series Resolution authorizing such Series.

4.02 Redemption at the Election or Direction of the District. In the case of any redemption of Bonds at the election or direction of the District, the District shall give written notice to the Trustee of its election or direction so to redeem, of the redemption date, of the Series, and of the principal amounts of the Bonds of each maturity of such Series to be redeemed (which Series maturities and principal amounts thereof to be redeemed shall be determined by the District in its sole discretion, subject to any limitations with respect thereto contained in the Resolution). In the event notice of redemption shall have been given as in Section 4.05 provided, there shall be paid prior to the redemption date to the appropriate Paying Agents an amount in cash which, in addition to

other moneys, if any, available therefor held by such Paying Agents, will be sufficient to redeem on the redemption date at the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, all of the Bonds to be redeemed. The District shall promptly notify the Trustee in writing of all such payments by it to a Paying Agent.

4.03 Redemption Otherwise Than at District's Election or Direction. Whenever by the terms of the Resolution the Trustee is required or authorized to redeem Bonds otherwise than at the election or direction of the District, the Trustee shall select the Bonds to be redeemed, give the notice of redemption and pay out of moneys available therefor the Redemption Price thereof, plus interest accrued and unpaid to the redemption date to the appropriate Paying Agents in accordance with the terms of this Article IV and, to the extent applicable, Section 5.07.

4.04 Selection of Bonds to be Redeemed. If less than all of the Bonds of like maturity of any Series shall be called for prior redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided, however, that the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof, and that, in selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

4.05 Notice of Redemption. 1. When the Trustee shall receive notice from the District of its election or direction to redeem Bonds pursuant to Section 4.02, and when redemption of Bonds is authorized or required pursuant to Section 4.03, the Trustee shall give notice, in the name of the District, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed and in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed, and, if applicable, that such notice is conditional and the conditions that must be satisfied. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be given by publication once a week for at least two successive weeks in the Authorized Newspapers, the first such publication to be not less than 30 days nor more than 60 days prior to the

redemption date. If so provided in the Series Resolution, the Trustee shall also mail a copy of such notice, postage prepaid, not less than 25 days before nor more than 50 days prior to the redemption date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books. If, at the time of giving notice of redemption, no Bonds of the Series to be redeemed are outstanding except fully registered Bonds, publication of such notice shall not be required.

2. The Trustee shall in the case of redemption pursuant to Section 4.02 hereof give notice required by this Section, regardless of whether it has on deposit sufficient funds to effect such redemption. Any notice of optional redemption given pursuant to this Section may state that it is conditional upon receipt by the Trustee of moneys sufficient to pay the Redemption Price of such Bonds or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such Redemption Price if any condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Trustee to the registered owners of any Bonds so affected as promptly as practicable upon the failure of such condition or the occurrence of such event.

4.06 Payment of Redeemed Bonds. Notice having been given by publication in the manner provided in Section 4.05, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption less than all of a Bond, the District shall execute and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, registered Bonds of like Series and maturity in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on said date and if notice of redemption shall have been published as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

ARTICLE V
ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

5.01 The Pledge Effected by the Resolution. 1. The Bonds are special obligations of the District payable from and secured by the funds pledged therefor. There are hereby pledged for the payment of the principal and Redemption Price of, and interest on, the Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, (i) the proceeds of sale of the Bonds, (ii) the Revenues and, (iii) all Funds (except the Rate Stabilization Fund) established by the Resolution, including the investments, if any, thereof.

2. Such proceeds of sale of the Bonds, the Revenues (subject to the transfers permitted under Section 5.06 hereof) and the other moneys and securities hereby pledged shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the District, irrespective of whether such parties have notice thereof.

5.02 Establishment of Funds. The following Funds and Accounts are hereby created and established:

(1) Salt River Project Electric System Construction Fund, to be held by the District,

(2) Salt River Project Electric System Revenue Fund, to be held by the District,

(3) Salt River Project Electric System Debt Service Account, to be held by the Trustee

(4) Salt River Project Electric System Debt Reserve Account, to be held by the Trustee,

(5) Salt River Project Electric System Rate Stabilization Fund, to be held by the District, and

(6) Salt River Project Electric System Redemption Fund, to be held by the Trustee.

5.03 Construction Fund. 1. There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of the Resolution, and there may be paid into the Construction Fund, at the option of the District, any moneys received for or in connection with the Electric System by the District from

any other source, unless required to be otherwise applied as provided by the Resolution.

2. The proceeds of insurance maintained pursuant to the Resolution against physical loss of or damage to a Project, or of contractors' performance bonds with respect thereto, pertaining to the period of construction thereof, shall be paid into the Construction Fund.

3. Unless otherwise provided herein, amounts in the Construction Fund shall be applied to the purpose or purposes specified in the Series Resolution authorizing the Bonds.

4. Notwithstanding any of the other provisions of this Section, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds when due.

5. Amounts in the Construction Fund shall be invested by the District to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay the Cost of Construction or such other purpose to which such moneys are applicable. The District may, and to the extent required for payments from the Construction Fund shall, sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Construction Fund. Interest received on moneys or securities in the Construction Fund shall be deposited in the Construction Fund.

5.04 Revenues and Revenue Fund. The Revenue Fund is hereby created and established and there shall be promptly deposited by the District to the credit of the Revenue Fund all Revenues.

5.05 Payment of Operating Expenses. The District (a) shall out of the moneys in the Revenue Fund, pay, free and clear of any lien or pledge created by the Resolution, all amounts required for reasonable and necessary Operating Expenses, and (b) may at all times retain in the Revenue Fund amounts deemed by the District to be reasonable and necessary for working capital and reserves for Operating Expenses including expenses which do not recur annually; provided that the total amount of such reserves set aside during any year shall not exceed 20% of the amount of Operating Expenses for such year.

5.06 Payments Into Certain Funds. 1. The District shall out of the moneys in the Revenue Fund not retained therein pursuant to Section 5.05, on or before each date for the payment of Debt Service, transfer and apply such amount to the Debt Service Fund (i) for credit to the Debt Service Account, to the extent required so that the balance in said Account shall equal the Aggregate

Debt Service; provided that, for the purposes of computing the amount to be allocated to said Account, there shall be excluded the amount, if any, set aside in said Account which was deposited therein from the Rate Stabilization Fund or from the proceeds of Bonds less an amount equal to the interest accrued and unpaid and to accrue on Bonds (or any Refunding Bonds issued to refund Bonds) to the last day of the then current calendar month; and (ii) for credit to the Debt Reserve Account, an amount equal to one-twelfth of twenty percent (1/12 of 20%) of the amount necessary to make the total amount of moneys on deposit therein equal to the Debt Reserve Requirement; provided, however, that no deposits shall be required if the District shall deposit a Debt Reserve Account Credit Facility in the Debt Reserve Account in satisfaction of the Debt Reserve Requirement.

2. The District may out of the moneys in the Revenue Fund not retained therein pursuant to Section 5.05 or applied pursuant to paragraph 1 of this Section 5.06, upon a determination by an Authorized Officer of the District at any time prior to the next Debt Service payment date that sufficient funds are or will be available in the Debt Service Account to pay Debt Service on the next Debt Service payment date and that sufficient moneys, securities or a Debt Reserve Account Credit Facility equal to the Debt Reserve Requirement are or will be on deposit in the Debt Reserve Account to satisfy the Debt Reserve Requirement, transfer such amount as follows and in the following order:

(1) To the Rate Stabilization Fund, an amount deemed necessary by the District which may be used by the District for any lawful purpose; and

(2) To the General Fund, any such remaining balance in the Revenue Fund. Any amount so transferred to the General Fund of the District may be used by the District for any lawful purpose.

Provided, however, that so long as there shall be held in the Debt Service Fund an amount sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made into the Debt Service Fund.

5.07 Debt Service Fund. Debt Service Account. 1. The Trustee shall pay out of the Debt Service Account to the respective Paying Agents (i) on or before each interest payment date for any of the Bonds, the amount required for the interest payable on such date; (ii) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (iii) on or before the day preceding any redemption date for the Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents on and after the due dates

thereof. The Trustee shall also pay out of the Debt Service Account the accrued interest included in the purchase price of the Bonds purchased for retirement.

2. Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) may and, if so directed by the District, shall be applied by the Trustee, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to (i) the purchase of Bonds of the Series for which such Sinking Fund Installment was established, or (ii) the redemption at the applicable sinking fund Redemption Prices pursuant to Article IV, of such Bonds, if then redeemable by their terms. After the 60th day but on or prior to the 40th day preceding the due date of such Sinking Fund Installment, any amounts then on deposit in the Debt Service Account (exclusive of amounts, if any, set aside in said Account which were deposited therein from the proceeds of additional Bonds) may and, if so directed by the District, shall be applied by the Trustee to the purchase of Bonds of the Series for which such Sinking Fund Installment was established in an amount not exceeding that necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. All purchases of any Bonds pursuant to this subsection 2 shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made in such manner as the Trustee shall determine. The applicable sinking fund Redemption Price (or principal amount of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Debt Service Account until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the 40th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, by giving notice as provided in Section 4.05, on such due date Bonds of the Series for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. The Trustee shall pay out of the Debt Service Account to the appropriate Paying Agents, on or before the day preceding such redemption date (or maturity date), the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amount shall be applied by such Paying Agents to such redemption (or payment). All expenses in connection with the purchase or redemption of Bonds shall be paid by the District from the Revenue Fund as an Operating Expense.

3. The amount, if any, deposited in the Debt Service Account from the proceeds of each Series of Bonds shall be set aside in such Account and applied to the payment of interest on the Bonds of such Series (or Refunding Bonds issued to refund such Bonds) as the same becomes due and payable.

Debt Reserve Account. 1. If on the first working day of any month the amount on deposit in the Debt Reserve Account shall be less than the Debt Reserve Requirement, the Trustee shall apply amounts from the Debt Service Fund to the extent necessary to make good the deficiency. In the event that there is on deposit in the Debt Reserve Account moneys and a Debt Reserve Account Credit Facility, the Trustee shall withdraw moneys prior to making a draw or claim, as the case may be, on a Debt Reserve Account Credit Facility.

2. Whenever the amount on deposit in the Debt Reserve Account shall exceed the Debt Reserve Requirement, such excess shall be allocated and applied by the District in the same manner as Revenues pursuant to Section 5.06.

3. Whenever the amount in the Debt Reserve Account, together with the amount in the Debt Service Account, is sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), the funds on deposit in the Debt Reserve Account shall be transferred to the Debt Service Account.

4. The District may cause to be delivered to the Trustee for deposit into the Debt Service Account, and the Trustee shall upon its receipt so deposit, a Debt Reserve Account Credit Facility for the benefit of the Bondholders, which Debt Reserve Account Credit Facility shall be payable or available to be drawn upon, as the case may be (upon the giving of notice as required thereunder), on any date on which a deficiency in the Debt Service Fund exists which cannot be cured by moneys in any other fund or account held hereunder and available for such purpose; provided, however, (i) if a disbursement is made under the Debt Reserve Account Credit Facility, the District shall either reinstate the maximum limits of such Debt Reserve Account Credit Facility within twelve (12) months following such disbursement equal to the Debt Reserve Requirement or deposit into the Debt Reserve Account moneys in the amount of the disbursement made under such Debt Reserve Account Credit Facility, or a combination of such alternatives as shall equal the Debt Reserve Requirement; (ii) if any such Debt Reserve Account Credit Facility for deposit in the Debt Service Reserve Fund is obtained and if six (6) months prior to the expiration thereof, the Debt Reserve Account is less than the Debt Reserve Requirement, the District shall cause the reinstatement of the maximum limits of such existing Debt Reserve Account Credit Facility, or shall obtain a substitute to the extent necessary to fund the Debt Reserve Account at the Debt Reserve Requirement; and (v) if a nationally recognized rating agency shall downgrade the rating of the Bonds, if any, as a result of such deposit of any such Debt Reserve Account Credit Facility or the rating of the provider thereof drops below the highest rating category for a nationally recognized rating agency, then the District shall deliver to the Trustee for deposit in the Debt Reserve Account a replacement of such Debt Reserve Account Credit Facility, in like amount and

form acceptable to the Trustee and such that the nationally recognized rating agency will not reduce or withdraw their ratings, if any, on the Bonds, or deposit moneys in an amount sufficient to fund the Debt Reserve Account in an amount equal to the Debt Reserve Requirement within twelve (12) months following such downgrade.

5.08 Rate Stabilization Fund. 1. There may be deposited in the Rate Stabilization Fund any amounts deemed necessary by the District to be used for any lawful purpose of the District, including but not limited to making any deposits required by the Resolution to any Fund, as determined by the District; provided, however, that no such deposit to any such Fund shall be required; provided further, however, that if at any time the amounts in the Operating Fund or Debt Service Fund shall be less than the current requirements thereof, the District shall withdraw from the Rate Stabilization Fund and deposit in such other Funds the amount necessary (or all the moneys in the Rate Stabilization Fund, if less than the amounts necessary, applying available amounts in the order of priority and otherwise as specified in Section 5.06) to make up such deficiency. Amounts on deposit in the Rate Stabilization Fund may be invested by the District to the fullest extent practicable in Investment Securities. The District may sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Rate Stabilization Fund. Interest received on moneys or securities in the Rate Stabilization Fund shall be deposited in the Rate Stabilization Fund. Amounts in the Rate Stabilization Fund which the District may determine to be in excess of the amount required to be maintained therein shall be transferred to the Revenue Fund. Amounts on deposit in the Rate Stabilization Fund are not subject to the lien or pledge created by the Resolution.

5.09 Subordinated Indebtedness. The District may, at any time, or from time to time, issue evidences of indebtedness payable out of Revenues and which may be secured by a pledge of Revenues provided, however, that such pledge shall be and shall be expressed to be, subordinate in all respects to the pledge of the Revenues, moneys, securities and funds created by the Resolution.

5.10 Redemption Fund. There shall be deposited in the Redemption Fund amounts required to be deposited therein pursuant to Sections 7.07 and 7.13 hereof. Amounts in the Redemption Fund shall be used by the District for the purchase or redemption of any Bonds, and expenses in connection with the purchase or redemption of any Bonds.

ARTICLE VI DEPOSITARIES OF MONEYS, SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

6.01 Depositaries. All moneys held by the Trustee under the provisions of the Resolution shall be deposited with the Trustee, including one or more

Depositories in trust for the Trustee. All moneys held by the District under the Resolution shall be deposited in one or more Depositories in the name of the District. All moneys deposited under the provisions of the Resolution with the Trustee or any Depositary shall be held in trust and applied only in accordance with the provisions of the Resolution, and each of the Funds established by the Resolution shall be a trust fund for the purposes thereof.

6.02 Deposits. 1. All Revenues and other moneys held by any Depositary under the Resolution may be placed on demand or time deposit, if and as directed by the District, provided that such deposits shall permit the moneys so held to be available for use at the time when needed. The Depositary shall not be liable for any loss or depreciation in value resulting from any, investment made pursuant to the Resolution. Any such deposit may be made in the commercial banking department of any Fiduciary which may honor checks and drafts on such deposit with the same force and effect as if it were not such Fiduciary. All moneys held by any Fiduciary, as such, may be deposited by such Fiduciary, unless the District otherwise instructs, in its banking department on demand or, if and to the extent directed by the District and acceptable to such Fiduciary, on time deposit, provided that such moneys on deposit be available for use at the time when needed. Such Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size and under similar conditions or as required by law.

2. All moneys deposited with the Trustee and each Depositary shall be credited to the particular Fund or account to which such moneys belong.

6.03 Investment of Certain Funds. Money held in the Debt Service Account and Debt Reserve Account shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Accounts. The Trustee shall make such investment in accordance with any instructions received from an Authorized Officer of the District.

Amounts in the Revenue Fund shall be invested and reinvested in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Fund.

Amounts in the Rate Stabilization Fund shall be invested as set forth in Section 5.08.

Net interest earned on any moneys or investments in such Funds and Accounts shall be paid into the Revenue Fund.

6.04 Valuation and Sale of Investments. Obligations purchased as an investment of moneys in any Fund created under the provisions of the Resolution shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to the respective Fund.

In computing the amount in any Fund created under the provisions of the Resolution for any purpose provided in the Resolution, obligations purchased as an investment of moneys therein shall be valued at cost or the principal amount thereof, whichever is lower, exclusive of accrued interest.

Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized Officer of the District so to do or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. The Trustee shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment.

ARTICLE VII PARTICULAR COVENANTS OF THE DISTRICT

The District covenants and agrees with the Trustee and the Bondholders as follows:

7.01 Payment of Bonds. The District shall duly and punctually pay or cause to be paid, but solely from the Revenues and the proceeds of the Bonds pledged therefor by the Resolution, the principal or Redemption Price, if any, of every Bond and the interest thereon, at the dates and places and in the manner mentioned in the Bonds, according to the true intent and meaning thereof.

7.02 Extension of Payment of Bonds. The District shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or claims for interest by the purchase or funding of such Bonds, claims for interest or by any other arrangement and in case the maturity of any of the Bonds or claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Resolution, to the benefit of the Resolution or to any payment out of Revenues of Funds established by the Resolution, including the investments, if any, thereof, pledged under the Resolution or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Resolution) held by the Fiduciaries, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended

claims for interest. Nothing herein shall be deemed to limit the right of the District to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

7.03 Offices for Servicing Bonds. Unless otherwise provided by a Series Resolution with respect to Bonds of such Series, the District shall maintain one or more agencies as the District may so designate from time to time where Bonds may be presented for payment and shall maintain one or more agencies in the City of New York, New York where Bonds may be presented for registration, transfer or exchange, and where notices, demands and other documents may be served upon the District in respect to the Bonds or to the Resolution. The District hereby appoints the Trustee as its agent to maintain such agency for the registration, transfer or exchange of Bonds, and for the service upon the District of such notices, demands and other documents and the Trustee shall continuously maintain or make arrangements for an office in the City of New York to perform such agency. The District may by Series Resolution appoint Paying Agents as its agents to maintain such agencies for the payment or redemption of Bonds of such Series.

7.04 Further Assurance. At any and all times the District shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and other moneys, securities and funds hereby pledged or assigned, or intended so to be, or which the District may become bound to pledge or assign.

7.05 Power to Issue Bonds and Pledge Revenues and Other Funds. The District is duly authorized under all applicable laws to create and issue the Bonds and to adopt the Resolution and to pledge the Revenues and other moneys, securities and funds purported to be pledged by the Resolution in the manner and to the extent provided in the Resolution. Except to the extent otherwise provided in Section 5.01, the Revenues and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution, and all corporate or other action on the part of the District to that end has been and will be duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the District in accordance with their terms and the terms of the Resolution. The District shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under the Resolution and all the rights of the Bondholders under the Resolution against all claims and demands of all persons whomsoever.

7.06 Power to Operate Electric System and Collect Rates and Fees.

The District has good right and lawful power to construct, reconstruct, improve, maintain, operate and repair the Electric System, and to fix and collect rates, fees, rents and other charges in connection therewith.

7.07 Creation of Liens; Sale and Lease of Property. 1. The District shall not hereafter issue any bonds or other evidences of indebtedness payable out of or secured by a pledge of any revenues or income of the Electric System, except as in this Resolution provided.

2. The District shall not issue any bonds or other evidences of indebtedness other than the Bonds, payable out of or secured by a pledge of any revenues or income of the Electric System or of the moneys, securities or funds held or set aside by the District or by the Fiduciaries under the Resolution and shall not create or cause to be created any lien or charge on any revenues or income of the Electric System, or such moneys, securities or funds; provided, however, that nothing contained in the Resolution shall prevent the District from issuing Subordinated Indebtedness as provided in Section 5.09, and provided further that the District may, for its authorized purposes, make or assume loans with the United States of America, which loans may be secured by lien on revenues and income of the Electric System prior to the lien of the Bonds issued hereunder.

3. The District may sell or exchange at any time and from time to time any property constituting part of the Electric System and may lease or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the Electric System if (i) in the sole judgment of the District it is advisable to take such action, (ii) such action shall not impair the ability of the District to make Debt Service payments, and (iii) such action does not materially impede or unduly restrict the operation by the District of the Electric System. Except as provided in Section 7.10, any proceeds of any such sale, exchange, lease, contract or license shall at the discretion of the District be deposited in the Redemption Fund for application to the purchase or redemption of Bonds or be applied for any lawful purpose.

7.08 Reserved.

7.09 Reserved.

7.10 Operation and Maintenance of Electric System. The District shall at all times operate or cause to be operated the Electric System properly and in an efficient and economical manner, consistent with good business and utility operating practices, and shall maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair,

working order and condition, and shall from time to time make, or cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the Electric System may be properly and advantageously conducted; provided, however, that nothing contained herein shall prevent the District from exercising its powers under Section 7.07 (3); provided further, however, that any sale-leaseback or lease-leaseback of any part of the Electric System or other similar contractual arrangements, the effect of which is that the District continues to retain the Revenues therefrom, shall not constitute a lease or disposition of such part of the Electric System for purposes of paragraph 3 of Section 7.07 and any proceeds therefrom shall be treated as Revenues.

7.11 Rates and Fees. 1. The District shall charge and collect rates, fees and other charges for the sale of electric power and energy and other services, facilities and commodities of the Electric System as shall be required to provide revenues and income (including investment income) at least sufficient in each Fiscal Year for the payment of the sum of:

(a) Operating Expenses during such Fiscal Year, including reserves, if any, therefor provided for in the Annual Budget for such year;

(b) An amount equal to the Aggregate Debt Service for such Fiscal Year;

(c) The amount, if any, to be paid during such Fiscal Year into the Debt Reserve Account in the Debt Service Fund; and

(d) All other charges or liens whatsoever payable out of revenues and income during such Fiscal Year and, to the extent not otherwise provided for, all amounts payable on Subordinated Indebtedness.

2. If, in any Fiscal Year, the revenues and income collected shall not have been sufficient to provide all of the payments and meet all other requirements as specified in said subsection 1, the District shall as promptly as permitted by law establish and place in effect a schedule of rates, fees and charges which will cause sufficient revenues and income to be collected. For purposes of this Section 7.11, at any time, revenues and income collected shall include any amounts withdrawn or expected to be withdrawn thereafter in any Fiscal Year from the Rate Stabilization Fund which were on deposit therein prior to such Fiscal Year.

3. The District will not furnish or supply power or energy free of charge to any person, firm or corporation, public or private, and the District shall promptly enforce the payment of any and all accounts owing to the District by reason of the ownership and operation of the Electric System, to the extent dictated by sound business practice.

4. The failure in any Fiscal Year to comply with the covenant in subsection 1 of this Section shall not constitute an Event of Default under the Resolution, if the District shall comply with subsection 2 of this Section.

7.12 Maintenance of Insurance. The District shall provide protection for the Electric System in accordance with sound electric utility practice which may consist of insurance, self insurance and indemnities. Any insurance shall be in the form of policies or contracts for insurance with insurers of good standing, shall be payable to the District as its interest may appear, and may provide for such deductibles, exclusions, limitations, restrictions and restrictive endorsements customary in policies for similar coverage issued to entities operating properties similar to the properties of the Electric System. Any self insurance shall be in the amounts, manner and of the types provided by entities operating properties similar to the properties of the Electric System.

7.13 Reconstruction; Application of Insurance Proceeds. 1. If any useful portion of the Electric System shall be damaged or destroyed, the District shall, as expeditiously as possible, continuously and diligently prosecute the reconstruction or replacement thereof, unless the District determines that such reconstruction and replacement is not in the interest of the District and the Bondholders. The proceeds of any insurance shall be paid on account of such damage or destruction, other than business interruption loss insurance, shall be held by the District in the Construction Fund and made available for, and to the extent necessary be applied to, the cost of such reconstruction or replacement, or shall be applied to the construction or acquisition of any properties or assets of the Electric System. Pending such application, such proceeds may be invested by the District in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed to pay such cost of reconstruction or replacement or acquisition. Interest earned on such investments shall be deposited in the Construction Fund. The proceeds of any such insurance not applied by the District to constructing or replacing damaged or destroyed property or in acquiring property or assets of the Electric System shall be paid to the Trustee for deposit in the Redemption Fund.

2. The proceeds of business interruption loss insurance, if any, shall be paid into the Revenue Fund.

7.14 Accounts and Reports. 1. The District shall keep, in accordance with Accounting Practice, proper books of record and account of its transactions relating to the Electric System and the Funds and Accounts established by the Resolution, together with all contracts for the sale of power and energy and all other books and papers of the District, including insurance policies, relating to the Electric System and such Funds and accounts.

2. The Trustee shall advise the District promptly after the end of each month of its transactions during such month relating to the Funds and accounts held by it under the Resolution.

3. The District shall annually, within 180 days after the close of each Fiscal Year, file with the Trustee, and otherwise as provided by law, a copy of the annual report of the District and its agent, the Association, for such year, accompanied by an Accountant's Report. In addition, the District will file with the Trustee a statement, or statements, accompanied by an Accountant's Report of each Fund and account established under the Resolution, summarizing the receipts therein and disbursements therefrom during such year and the amounts held therein at the end of each Fiscal Year. Such Accountant's Report on the statement summarizing the transactions in the Funds established under the Resolution shall state whether or not, to the knowledge of the signer, the District is in default with respect to any of the covenants, agreements or conditions as set forth in Section 8.01 of the Resolution, insofar as they pertain to accounting matters, and if so, the nature of such default.

4. The reports, statements and other documents required to be furnished to the Trustee pursuant to this Section 7.14 shall be available for the inspection of the Bondholders at the office of the Trustee and shall be mailed to each Bondholder who shall file a written request therefor with the District.

7.15 Payment of Taxes and Charges. The District shall from time to time duly pay and discharge, or cause to be paid and discharged all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon the properties of the District or upon the rights, revenues, income, receipts, and other moneys, securities and funds of the District when the same shall become due (including all rights, moneys and other property transferred, assigned or pledged under the Resolution), and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the District shall in good faith contest by proper legal proceedings if the District shall in all such cases have set aside on its books reserves deemed adequate with respect thereto.

7.16 Reserved.

7.17 Transfer From General Fund. In the event there is a deficiency in the Debt Service Account established herein and if such a deficiency is not paid from other sources the District hereby covenants to transfer money in the General Fund to said Debt Service Account an amount sufficient to make up such deficiency.

7.18 Reserved.

ARTICLE VIII REMEDIES OF BONDHOLDERS

8.01 Events of Default. If one or more of the following events (in the Resolution called "Events of Default") shall happen, that is to say:

(i) if default shall be made in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise,

(ii) if default shall be made in the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment therefor (except when such Installment is due on the maturity date of such Bond), when and as such interest installment or Sinking Fund Installment shall become due and payable, and such default shall continue for a period of 30 days,

(iii) if default shall be made by the District in the performance or observance of the covenants, agreements and conditions on its part as provided in Section 7.11,

(iv) if default shall be made by the District in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution or in the Bonds contained, and such default shall continue for a period of 60 days after written notice thereof to the District by the Trustee or to the District and to the Trustee by the Holders of not less than a majority in principal amount of the Bonds Outstanding, provided that if such default shall be such that it cannot be corrected within such sixty day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected, or

(v) if (1) a decree or order for relief is entered by a court having jurisdiction of the District adjudging the District a bankrupt or insolvent or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition in respect of the District in any involuntary case under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State of Arizona; (2) a receiver, liquidator, assignee, custodian, trustee, sequester or other similar official of the District or of any substantial portion of its property is appointed; or (3) the winding up or liquidation of its affairs is ordered and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days,

then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, either the Trustee (by notice in writing to the District), or the Holders of not less than 25% in principal amount of the Bonds Outstanding (by notice in writing to the District and the Trustee), may declare the principal of all the Bonds then Outstanding and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% in principal amount of the Bonds to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law, and the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums then payable by the District under the Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the District or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Holders of a majority in principal amount of the Bonds Outstanding, by written notice to the District and to the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of a majority in principal amount of the Bonds then Outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

8.02 Accounting and Examination of Records After Default. 1. The District covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the District and all other records relating to the Electric System shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys, including the engineer or firm of engineers appointed pursuant to Section 8.03.

2. The District covenants that if an Event of Default shall happen and shall not have been remedied, the District, upon demand of the Trustee, will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Resolution for such period as shall be stated in such demand.

8.03 Application of Revenues and other Moneys After Default. 1. The District covenants that if an Event of Default shall happen and shall not have been remedied, the District, upon demand of the Trustee, shall pay over to the Trustee (i) forthwith, all moneys, securities and funds then held by the District in any Fund or Account under the Resolution, and (ii) all Revenues as promptly as practicable after receipt thereof.

2. During the continuance of an Event of Default, the Trustee shall apply such moneys, securities, funds and Revenues and the income therefrom as follows and in the following order:

(i) to the payment of the amounts required for reasonable and necessary Operating Expenses, and for reasonable renewals, repairs and replacements of the Electric System necessary to prevent loss of Revenues, as certified to the Trustee by an independent engineer or firm of engineers of recognized standing (who may be an engineer or firm of engineers retained by the District for other purposes) selected by the Trustee. For this purpose the books of record and accounts of the District relating to the Electric System shall at all times be subject to the inspection of such engineer or firm of engineers during the continuance of such Event of Default;

(ii) to the payment of the reasonable and proper charges, expenses and liabilities of the Trustee and of any engineer or firm of engineers selected by the Trustee pursuant to this Article;

(iii) to the payment of the interest and principal or Redemption Price then due on the Bonds, subject to the provisions of Section 7.02, as follows:

(a) unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if

the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) if the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bonds over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

3. If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the District under the Resolution, including the principal and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the District, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Resolution or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the District all moneys, securities, funds and Revenues then remaining unexpended in the hands of the Trustee (except moneys, securities, funds or Revenues deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Trustee), and thereupon the District and the Trustee shall be restored, respectively, to their former positions and rights under the Resolution, and all Revenues shall thereafter be applied as provided in Article V. No such payment over to the District by the Trustee or resumption of the application of Revenues as provided in Article V shall extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

8.04 Proceedings Brought by Trustee. 1. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Holders of not less than [a majority] in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its right and the rights of the Holders of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the District as if the District were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by

counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

2. All rights of action under the Resolution may be enforced by the Trustee without the possession of any of the Bonds or the production thereof on the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its name.

3. The Holders of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Bondholders not parties to such direction.

4. Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Resolution, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Resolution and provided to be exercised by the Trustee upon the occurrence of an Event of Default.

5. Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Holders of a majority in principal amount of the Bonds then Outstanding, and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Resolution by any acts which may be unlawful or in violation of the Resolution, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interest and the interest of the Bondholders.

8.05 Restriction on Bondholder's Action. 1. No Holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such Holder shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the Holders of [not less than a majority] in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Resolution or by the Act or by the laws of Arizona or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred

therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Resolution, or to enforce any right under the Resolution, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Resolution shall be instituted, had and maintained in the manner provided in the Resolution and for the equal benefit of all Holders of the Outstanding Bonds, subject only to the provisions of Section 7.02.

2. Nothing in the Resolution or in the Bonds contained shall affect or impair the obligation of the District, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Holders thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Holder to enforce such payment of his Bond.

8.06 Remedies Not Exclusive. No remedy by the terms of the Resolution conferred upon or reserved to the Trustee or the Bondholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Resolution or existing at law or equity or by statute on or after the date of adoption of this Resolution.

8.07 Effect of Waiver and Other Circumstances. 1. No delay or omission of the Trustee or of any Bondholder to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such default or be an acquiescence therein; and every power and remedy given by this Article to the Trustee or to the Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders.

2. Prior to the declaration of maturity of the Bonds as provided in Section 8.01, the Holders of not less than 25% in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the Holders of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium (if any) on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

8.08 Notice of Default. The Trustee shall promptly mail to registered Holders of Bonds, and to all Bondholders who shall have filed their names and addresses with the Trustee for such purpose written notice of the occurrence of any Event of Default. If for any Fiscal Year the Revenues shall be insufficient to

comply with the provisions of subsection 1 of Section 7.11, the Trustee, on or before the 30th day after receipt of the annual audit, shall mail to such registered Holders and such Bondholders written notice of such failure.

ARTICLE IX CONCERNING THE FIDUCIARIES

9.01 Trustee; Appointment and Acceptance of Duties. The Trustee shall be appointed by resolution of the District prior to the issuance of any Bonds authorized hereunder. The Trustee shall signify its acceptance of the duties and obligations imposed upon it by the Resolution by written acceptance filed with the District prior to the issuance of any Bonds authorized hereunder and by filing such written acceptance the Trustee shall be deemed to have accepted such duties and obligations with respect to all the Bonds to be issued, but only, however, upon the terms and conditions set forth in the Resolution.

9.02 Paying Agents; Appointment and Acceptance of Duties. 1. The District shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 9.12 for a successor Paying Agent. The Trustee may be appointed a Paying Agent.

2. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by the Resolution by executing and delivering to the District and to the Trustee a written acceptance thereof.

3. Unless otherwise provided, the principal offices of the Paying Agents are designated as the offices or agencies of the District for the payment of the interest on and principal or Redemption of the Bonds.

9.03 Responsibilities of Fiduciaries. 1. The recitals of fact herein and in the Bonds contained shall be taken as the statements of the District and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of the Resolution or of any Bonds issued thereunder or as to the security afforded by the Resolution, and no Fiduciary shall incur any liability in respect thereof. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to the District or to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. Subject to the provisions of subsection 2 of this Section 9.03, no Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence, misconduct or default.

2. The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Resolution. In case an Event of Default has occurred (which has not been cured) the Trustee shall exercise such of the rights and powers vested in it by the Resolution, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. Any provision of the Resolution relating to action taken or to be taken by the Trustee or to evidence upon which the Trustee may rely shall be subject to the provisions of this Section 9.03.

9.04 Evidence on Which Fiduciaries May Act. 1. Each Fiduciary, upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Resolution, shall examine such instrument to determine whether it conforms to the requirements of the Resolution and shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of counsel to the District, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Resolution in good faith and in accordance therewith.

2. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized Officer of the District, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of the Resolution upon the faith thereof; but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require further or additional evidence as to it as may seem reasonable.

3. Except as otherwise expressly provided in the Resolution, any request, order, notice, or other direction required or permitted to be furnished pursuant to any provision thereof by the District to any Fiduciary shall be sufficiently executed if executed in the name of the District by an Authorized Officer of the District.

9.05 Compensation. The District shall pay to each Fiduciary from time to time reasonable compensation for services rendered under the Resolution, and also reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of their powers and duties under the Resolution in accordance with agreements made from time to time by and between the District and the Trustee.

Subject to the provisions of Section 9.03, the District further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence, misconduct or default.

9.06 Certain Permitted Acts. Any Fiduciary may become the owner of any Bonds, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Resolution, whether or not any such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

9.07 Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by the Resolution by giving not less than 60 days' written notice to the District, and publishing notice thereof, specifying the date when such resignation shall take effect, once in each week for two successive calendar weeks in the Authorized Newspapers, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the District or the Bondholders as provided in Section 9.09, in which event such resignation shall take effect immediately on the appointment of such successor.

9.08 Removal of Trustee. The Trustee shall be removed by the District if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the District, and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the District. The District may remove the Trustee at any time, except during the existence of an Event of Default as defined in Section 8.01 hereof, for such cause as shall be determined in the sole discretion of the District by filing with the Trustee an instrument signed by an Authorized Officer of the District.

9.09 Appointment of Successor Trustee. 1. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the District, and if the District does not appoint a successor within 30 days then by the Holders of a majority in principal amount of the Bonds then outstanding, excluding any Bonds held by or for the account of the District, by an instrument or concurrent instruments in writing signed and acknowledged by such Bondholders or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the District and the predecessor Trustee. The District shall publish notice of any

such appointment made by it or the Bondholders once in each week for two successive calendar weeks, in the Authorized Newspapers, the first publication to be made within 20 days after such appointment.

2. If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within 60 days after the Trustee shall have given to the District written notice as provided in Section 9.07 or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

3. Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a bank or trust company or national banking association, and having capital stocks and surplus aggregating at least \$100,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Resolution.

9.10 Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under the Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to the District, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the written request of the District, or of the successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under the Resolution; and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trust and conditions herein set forth. Should any deed, conveyance or instrument in writing from the District be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the District. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

9.11 Merger or Consolidation. Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall

be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, and shall be authorized by law to perform all the duties imposed upon it by the Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act.

9.12 Resignation or Removal of Paying Agent and Appointment of Successor. 1. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least 60 days' written notice to the District, the Trustee, and the other Paying Agents. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by the District. Any successor Paying Agent shall be appointed by the District and shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolution.

2, In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there be no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

ARTICLE X SUPPLEMENTAL RESOLUTIONS

10.01 Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the District may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the District, shall be fully effective in accordance with its terms:

(1) To close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the delivery of Bonds or the issuance of other evidences of indebtedness;

(2) To add to the covenants and agreements of the District in the Resolution, other covenants and agreements to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(3) To add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(4) To authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in Section 2.02, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first delivery of such Bonds;

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolution, of the Revenues or of any other moneys, securities or funds;

(6) To modify any of the provisions of the Resolution in any respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof;

(7) To modify any of the provisions of the Resolution to permit compliance with any amendment to the Internal Revenue Code of 1986, as amended, or any successor thereto, as the same may be in effect from time to time, if, in the Opinion of Bond Counsel, failure to so modify the Resolution either would adversely affect the ability of the District to issue Bonds the interest on which is excludable from gross income for purposes of federal income taxation, or is necessary or advisable to preserve such exclusion with respect to any Outstanding Bonds;

(8) To comply with such regulations and procedures as are from time to time in effect relating to establishing and maintaining a book-entry-only system;

(9) To provide for the issuance of Bonds in coupon form payable to bearer;

(10) To comply with the requirements of any nationally recognized rating agency in order to maintain or improve a rating on the Bonds by such rating agency;

(11) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; or

(12) To insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect.

10.02 Supplemental Resolutions Effective With Consent of Trustees.

At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article XI, which Supplemental Resolution, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the District and upon compliance with the provisions of said Article XI, shall become fully effective in accordance with its terms as provided in said Article XI.

10.03 General Provisions. 1. The Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article X and Article XI. Nothing in this Article X or Article XI contained shall affect or limit the right or obligation of the District to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.04 or the right or obligation of the District to execute and deliver to any Fiduciary any instrument which elsewhere in the Resolution it is provided shall be delivered to said Fiduciary.

2. Any Supplemental Resolution referred to and permitted or authorized by Section 10.01 may be adopted by the District without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution when filed with the Trustee shall be accompanied by a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the District and enforceable in accordance with its terms.

3. The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Sections 10.01 or 10.02 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of the Resolution.

4. No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE XI AMENDMENTS

11.01 Mailing and Publication. 1. Any provision in this Article for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid only (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of the District or the Trustee, and (ii) to the Trustee.

2. Any provision in this Article for publication of a notice or other matter shall require the publication thereof only in the Authorized Newspapers.

11.02 Powers of Amendment. Any modification or amendment of the Resolution and of the rights and obligations of the District and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in Section 11.03(i) of the Holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then Outstanding or less than all the Bonds of a Series then Outstanding are affected by the modification or amendment, of the Holders of at least two-thirds in principal amount of the Bonds so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of Holders of at least two-thirds in principal amount of the Bonds entitled to such Sinking Fund Installment and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purpose of this Section, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series.

11.03 Consent of Bondholders. The District may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 11.02, to take effect when and as provided in this Section. A copy of such Supplemental Resolution (or brief summary thereof or reference

thereto in form approved by Trustee, together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee), shall be mailed by the District to Bondholders and shall be published in the Authorized Newspapers at least once a week for two successive weeks (but failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in this Section provided). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consents of Holders of the percentages of Outstanding Bonds specified in Section 11.02 and (b) a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the District in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the District and enforceable in accordance with its terms, and (ii) a notice shall have been published as hereinafter in this Section 11.03 provided. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 12.02. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and such proof is sufficient in accordance with Section 12.02 shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Holder of the Bonds giving such consent and, anything in Section 12.02 to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof) unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this Section 11.03 provided for is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 12.02. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the District and the Trustee a written statement that the Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Resolution (which may be referred to as Supplemental Resolution adopted by the District on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this Section 11.03, may be given to Bondholders by the District by mailing such notice to Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section 11.03 provided) and by publishing the same in the Authorized Newspapers at least once not more than 90 days after the Holders of the required percentages

of Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed. The District shall file with the Trustee proof of the publication of such notice and, if the same shall have been mailed to Bondholders, of the mailing thereof. A record, consisting of the papers required or permitted by this Section 11.03 to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the District, the Fiduciaries and the Holders of all Bonds at the expiration of 40 days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such 40 day period; provided, however, that any Fiduciary and the District during such 40 day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

11.04 Modifications by Unanimous Consent. The terms and provisions of the Resolution and the rights and obligations of the District and of the Holders of the Bonds thereunder may be modified or amended in any respect upon the adoption and filing by the District of a Supplemental Resolution and the consent of the Holders of all the Bonds then Outstanding, such consent to be given as provided in Section 11.03 except that no notice to Bondholders either by mailing or publication shall be required: provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders.

11.05 Exclusion of Bonds. Bonds owned or held by or for the account of the District shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article XI, and the District shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, the District shall furnish the Trustee a certificate of an Authorized Officer of the District, upon which the Trustee may rely, describing all Bonds so to be excluded.

11.06 Notation on Bonds. Bonds delivered after the effective date of any action taken as in Article X or this Article XI provided may, and, if the Trustee so determines, shall bear a notation by endorsement or otherwise in form approved by the District and the Trustee as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and presentation of his Bond for the purpose at the principal office of the Trustee or upon any transfer or any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such

transfer by the Trustee as to any such action. If the District shall so determine, new Bonds so modified as in the opinion of the District to conform to such action shall be prepared and delivered, and upon demand of the Holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same Series and maturity then Outstanding, upon surrender of such Bonds.

ARTICLE XII MISCELLANEOUS

12.01 Defeasance. 1. If the District shall pay or cause to be paid or there shall otherwise be paid, to the Holders of any Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then the pledge of any Revenues, and other moneys and securities pledged under the Resolution and all covenants, agreements and other obligations of the District to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the District to be prepared and filed with the District and, upon the request of the District, shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the District all moneys or securities held by them pursuant to the Resolution which are not required for the payment of principal or Redemption Price, if applicable, on Bonds or payment of interest. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution, and all covenants, agreements and obligations of the District to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

2. Bonds or the principal or interest installments or Redemption Price for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Paying Agents (through deposit by the District of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in subsection 1 of this Section. Any Outstanding Bonds of any Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in subsection 1 of this Section if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the District shall have given to the Trustee in form satisfactory to it irrevocable instructions to publish as provided in Article IV notice of redemption of such Bonds on said date, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities

the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the District shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in the Authorized Newspapers a notice to the owners of such Bonds that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are available for the payment of the principal or Redemption Price, if applicable, on said Bonds. Neither Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the District, as received by the Trustee, free and clear of any trust, lien or pledge.

3. Anything in the Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for five years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for five years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the District, be repaid by the Fiduciary to the District, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the District for the payment of such Bonds; provided, however, that before being required to make any such payment to the District, the Fiduciary shall, at the expense of the District, cause to be published at least twice, at an interval of not less than seven days between publications, in the Authorized Newspapers, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the District.

12.02 Evidence of Signatures of Bondholders and Ownership of Bonds. 1. Any request, consent, revocation of consent or other instrument which the Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of the Resolution (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

(1) The fact and date of the execution by any Bondholder or his attorney of such instruments may be proved by a guarantee of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature guarantee, certificate or affidavit shall also constitute sufficient proof of his authority.

(2) The amount of Bonds transferable by delivery held by any person executing any instrument as a Bondholder, the date of his holding such Bonds, and the numbers and other identification thereof, may be proved by a certificate, which need not be acknowledged or verified, in form satisfactory to the Trustee, executed by the Trustee or by a member of a financial firm or by an officer of a bank, trust company, insurance company, or financial corporation or other depository wherever situated, showing at the date therein mentioned that such person exhibited to such member or officer or had on deposit with such depository the Bonds described in such certificate. Such certificate may be given by a member of a financial firm or by an officer of any bank, trust company, insurance company or financial corporation or depository with respect to Bonds owned by it, if acceptable to the Trustee. In addition to the foregoing provisions, the Trustee may from time to time make such reasonable regulations as it may deem advisable permitting other proof of holding of Bonds transferable by delivery.

2. The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

3. Any request or consent by the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the District or any Fiduciary in accordance therewith.

12.03 Prior Obligations Not Affected. Nothing contained in the Resolution shall be construed as impairing or destroying the obligation of the District in connection with any franchise, contract, agreement, lease or other arrangement entered into by the District in connection with the operation of the properties of the District prior to the adoption of the Resolution, or to release any person, firm or corporations, public or private, from any debt or other obligation to the District pursuant to any such franchise, contract, agreement, lease or other arrangement.

12.04 Change of Corporate Name. Nothing herein contained shall prevent the District from changing its corporate name from time to time as provided by law, and the District expressly reserves the right to effect such change as may be determined by its Board of Directors.

12.05 Moneys Held for Particular Bonds. The amounts held by any Fiduciary for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto.

12.06 Preservation and Inspection of Documents. All documents received by any Fiduciary under the provisions of the Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the District, any other Fiduciary, and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

12.07 Parties Interested Herein. Nothing in the Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or corporation, other than the District, the Fiduciaries and the Holders of the Bonds, any right, remedy or claim under or by reason of the Resolution or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in the Resolution contained by and on behalf of the District shall be for the sole and exclusive benefit of the District, the Fiduciaries, and the Holders of the Bonds.

12.08 No Recourse on the Bonds. No recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on the Resolution against any member or officer of the District or any person executing the Bonds.

12.09 Publication of Notice; Suspension of Publication. 1. Any publication to be made under the provisions of the Resolution in successive

weeks or on successive dates may be made in each instance upon any business day of the week and need not be made in the same Authorized Newspapers for any or all of the successive publications but may be made in different Authorized Newspapers.

2. If, because of the temporary or permanent suspension of the publication or general circulation of any of the Authorized Newspapers or for any other reason, it is impossible or impractical to publish any notice pursuant to the Resolution in the manner herein provided, then such publication in lieu thereof as shall be made with the approval of the Trustee shall constitute a sufficient publication of such notice.

12.10 Reserved.

12.11 Severability of Invalid Provisions. If any one or more of the covenants or agreements provided in the Resolution on the part of the District or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of the Resolution, so long as the Resolution as so modified continues to express, without material change, the original intentions of the District or any Fiduciary as to the subject matter of the Resolution and the deletion of such portion of the Resolution will not substantially impair the respective benefits or expectations of the District or any Fiduciary.

12.12 Effective Date. This Resolution shall take effect in accordance with the provisions of Section 11.03 hereof; provided, however, that any modification or amendment affecting the form, ownership, transfer, registration, exchange, cancellation, redemption or payment of any coupon Bond shall not take effect with respect to such coupon Bond so long as any coupon Bonds remain Outstanding.

EXHIBIT H

Exhibit H

Salt River Project Agricultural Improvement and Power District
Schedule of Outstanding Bonds
As of January 2, 2003

1986 Series C Original Issue \$638,160,000

		Unamortized Amount			
		Issue Expense	\$	17,169.86	
		Discount	\$	1,831,469.97	
Maturity Date	Issue Amount	Current Outstanding	Interest Rate		
2025	<u>\$ 116,055,000.00</u>	<u>\$ 27,485,000.00</u>	5.000%	fixed	
	<u>\$ 116,055,000.00</u>	<u>\$ 27,485,000.00</u>			

1992 Series D Original Issue \$511,895,000

		Unamortized Amount			
		Issue Expense	\$	76,153.30	
		Discount	\$	4,379,787.59	
Maturity Date	Issue Amount	Current Outstanding	Interest Rate		
2004	\$ 5,675,000.00	\$ 5,035,000.00	5.700%	fixed	
2005	\$ 12,840,000.00	\$ 11,215,000.00	5.800%	fixed	
2007	\$ 9,015,000.00	\$ 9,015,000.00	6.000%	fixed	
2008	\$ 7,890,000.00	\$ 7,890,000.00	6.000%	fixed	
2009	\$ 19,275,000.00	\$ 19,275,000.00	6.000%	fixed	
2030	<u>\$ 73,930,000.00</u>	<u>\$ 36,985,000.00</u>	5.000%	fixed	
	<u>\$ 483,360,000.00</u>	<u>\$ 89,685,000.00</u>			

1993 Series A Original Issue \$281,065,000

		Unamortized Amount			
		Issue Expense	\$	97,136.37	
		Discount	\$	1,727,159.84	
Maturity Date	Issue Amount	Current Outstanding	Interest Rate		
2004	\$ 22,370,000.00	\$ 22,370,000.00	5.400%	fixed	
2005	\$ 23,685,000.00	\$ 12,735,000.00	5.500%	fixed	
2006	\$ 28,145,000.00	\$ 15,135,000.00	5.625%	fixed	
2007	\$ 26,625,000.00	\$ 19,375,000.00	5.750%	fixed	
2008	\$ 23,925,000.00	\$ 23,925,000.00	5.750%	fixed	
2009	\$ 5,995,000.00	\$ 5,995,000.00	5.750%	fixed	

April 10, 2003

1	2010	\$ 4,000,000.00	\$ 4,000,000.00	5.750%	fixed
	2013	\$ 28,365,000.00	\$ 3,785,000.00	5.750%	fixed
2	2019	<u>\$ 53,095,000.00</u>	<u>\$ 7,090,000.00</u>	5.500%	fixed
3		<u>\$ 232,270,000.00</u>	<u>\$ 114,410,000.00</u>		

1993 Series B Original Issue \$571,385,000

	Unamortized Amount
Issue Expense	\$ 82,958.58
Discount	\$ 1,543,333.12

	Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
8	2004	\$ 25,090,000.00	\$ 25,090,000.00	6.500%	fixed
	2005	\$ 26,370,000.00	\$ 9,990,000.00	7.000%	fixed
9	2006	\$ 30,550,000.00	\$ 11,575,000.00	5.050%	fixed
	2007	\$ 16,115,000.00	\$ 16,115,000.00	5.150%	fixed
10	2008	\$ 28,080,000.00	\$ 28,080,000.00	5.200%	fixed
	2009	\$ 22,240,000.00	\$ 1,535,000.00	5.375%	fixed
11	2010	\$ 34,285,000.00	\$ 2,370,000.00	5.450%	fixed
	2011	\$ 32,310,000.00	\$ 2,235,000.00	5.250%	fixed
	2013	\$ 68,995,000.00	\$ 4,765,000.00	5.250%	fixed
13	2019	\$ 131,675,000.00	\$ 10,695,000.00	5.250%	fixed
	2029	<u>\$ 36,945,000.00</u>	<u>\$ 6,415,000.00</u>	5.000%	fixed
14		<u>\$ 497,115,000.00</u>	<u>\$ 118,865,000.00</u>		

1993 Series C Original Issue \$726,380,000

	Unamortized Amount
Issue Expense	\$ 140,393.07
Discount	\$ 1,753,502.70

	Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
19	2004	\$ 31,295,000.00	\$ 31,295,000.00	4.500%	fixed
20	2005	\$ 35,255,000.00	\$ 24,005,000.00	4.600%	fixed
	2006	\$ 35,215,000.00	\$ 23,975,000.00	4.700%	fixed
21	2007	\$ 32,245,000.00	\$ 21,955,000.00	4.800%	fixed
	2008	\$ 36,765,000.00	\$ 22,330,000.00	4.900%	fixed
22	2009	\$ 40,840,000.00	\$ 40,840,000.00	6.500%	fixed
	2010	\$ 43,045,000.00	\$ 43,045,000.00	5.500%	fixed
23	2011	\$ 53,400,000.00	\$ 22,800,000.00	5.050%	fixed
24	2012	\$ 20,000,000.00	\$ 3,800,000.00	5.050%	fixed
	2013	\$ 86,265,000.00	\$ 17,970,000.00	5.000%	fixed
25	2016	\$ 150,485,000.00	\$ 31,345,000.00	5.000%	Fixed

2017	\$ 47,270,000.00	\$ 9,845,000.00	4.750%	fixed
	<u>\$ 660,365,000.00</u>	<u>\$ 293,205,000.00</u>		

1994 Series A Original Issue \$43,833,500

		Unamortized Amount		
	Issue Expense	\$ 93,921.62		
	Discount	\$ -		
Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2009	\$ 43,833,500.00	\$ 39,126,000.00	5.150%	fixed
	<u>\$ 43,833,500.00</u>	<u>\$ 39,126,000.00</u>		

1994 Series B Original Issue \$7,634,800

		Unamortized Amount		
	Issue Expense	\$ 15,871.05		
	Discount	\$ -		
Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2008	\$ 7,634,800.00	\$ 6,850,800.00	5.150%	fixed
	<u>\$ 7,634,800.00</u>	<u>\$ 6,850,800.00</u>		

1997 Series A Original Issue \$256,005,000

		Unamortized Amount		
	Issue Expense	\$ 137,788.67		
	Discount	\$ 257,427.90		
Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2004	\$ 2,920,000.00	\$ 2,920,000.00	6.000%	fixed
2005	\$ 3,060,000.00	\$ 1,535,000.00	6.000%	fixed
2006	\$ 3,315,000.00	\$ 1,660,000.00	6.000%	fixed
2007	\$ 3,390,000.00	\$ 3,390,000.00	6.000%	fixed
2008	\$ 7,355,000.00	\$ 4,855,000.00	6.000%	fixed
2009	\$ 7,825,000.00	\$ 6,580,000.00	5.500%	fixed
2010	\$ 8,315,000.00	\$ 5,000,000.00	5.125%	fixed
2011	\$ 4,720,000.00	\$ 2,840,000.00	5.000%	fixed
2018	\$ 26,000,000.00	\$ 1,795,000.00	5.125%	fixed
2020	<u>\$ 110,985,000.00</u>	<u>\$ 34,355,000.00</u>	5.000%	fixed
	<u>\$ 209,910,000.00</u>	<u>\$ 64,930,000.00</u>		

1997 Series B Original Issue \$29,811,500

		Unamortized Amount
Issue Expense	\$	39,672.89
Discount	\$	-

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2004	\$ 8,113,000.00	\$ 7,776,500.00	4.550%	fixed
2006	\$ 1,894,000.00	\$ 1,732,500.00	4.550%	fixed
2007	\$ 4,804,500.00	\$ 4,757,000.00	4.550%	fixed
	<u>\$ 29,811,500.00</u>	<u>\$ 14,266,000.00</u>		

1997 Series C Original Issue \$5,340,600

		Unamortized Amount
Issue Expense	\$	5,666.54
Discount	\$	-

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2005	<u>\$ 5,340,600.00</u>	<u>\$ 5,152,400.00</u>	4.550%	fixed
	<u>\$ 5,340,600.00</u>	<u>\$ 5,152,400.00</u>		

2001 Series A Original Issue \$580,570,000

		Unamortized Amount
Issue Expense	\$	2,632,359.63
Premium	\$	20,794,839.61

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2004	\$ 2,980,000.00	\$ 2,980,000.00	3.000%	fixed
2004	\$ 162,700,000.00	\$ 162,700,000.00	5.000%	fixed
2005	\$ 1,175,000.00	\$ 1,175,000.00	3.250%	fixed
2005	\$ 104,240,000.00	\$ 104,240,000.00	5.000%	fixed
2006	\$ 1,120,000.00	\$ 1,120,000.00	3.500%	fixed
2006	\$ 219,595,000.00	\$ 219,595,000.00	5.250%	fixed
2009	\$ 3,035,000.00	\$ 3,035,000.00	4.125%	fixed
2009	\$ 10,745,000.00	\$ 10,745,000.00	5.000%	fixed
2010	\$ 42,660,000.00	\$ 42,660,000.00	5.000%	fixed
2011	<u>\$ 11,420,000.00</u>	<u>\$ 11,420,000.00</u>	5.000%	fixed
	<u>\$ 580,570,000.00</u>	<u>\$ 559,670,000.00</u>		

2002 Series A Original Issue \$432,560,000

		Unamortized Amount
Issue Expense	\$	2,949,298.34
Premium	\$	7,056,420.51

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2010	\$ 1,450,000.00	\$ 1,450,000.00	4.125%	fixed
2011	\$ 915,000.00	\$ 915,000.00	4.250%	fixed
2011	\$ 23,710,000.00	\$ 23,710,000.00	5.000%	fixed
2012	\$ 37,110,000.00	\$ 37,110,000.00	5.000%	fixed
2013	\$ 26,175,000.00	\$ 26,175,000.00	5.250%	fixed
2014	\$ 560,000.00	\$ 560,000.00	4.500%	fixed
2014	\$ 24,025,000.00	\$ 24,025,000.00	5.250%	fixed
2015	\$ 260,000.00	\$ 260,000.00	4.600%	fixed
2015	\$ 28,940,000.00	\$ 28,940,000.00	5.250%	fixed
2016	\$ 550,000.00	\$ 550,000.00	4.750%	fixed
2017	\$ 2,855,000.00	\$ 2,855,000.00	5.250%	fixed
2018	\$ 21,665,000.00	\$ 21,665,000.00	5.250%	fixed
2019	\$ 380,000.00	\$ 380,000.00	4.875%	fixed
2019	\$ 33,925,000.00	\$ 33,925,000.00	5.250%	fixed
2020	\$ 4,160,000.00	\$ 4,160,000.00	5.250%	fixed
2021	\$ 17,155,000.00	\$ 17,155,000.00	5.000%	fixed
2022	\$ 5,640,000.00	\$ 5,640,000.00	5.000%	fixed
2023	\$ 10,000,000.00	\$ 10,000,000.00	5.125%	fixed
2023	\$ 33,765,000.00	\$ 33,765,000.00	5.000%	fixed
2027	\$ 61,010,000.00	\$ 61,010,000.00	5.125%	fixed
2031	\$ 98,310,000.00	\$ 98,310,000.00	5.000%	fixed
	<u>\$ 432,560,000.00</u>	<u>\$ 432,560,000.00</u>		

2002 Series B Original Issue \$570,000,000

Issue Expense	Unamortized Amount
Premium	\$ 3,633,202.99
	\$ 6,785,754.27

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2016	\$ 3,080,000.00	\$ 3,080,000.00	4.000%	fixed
2017	\$ 18,185,000.00	\$ 18,185,000.00	5.000%	fixed
2020	\$ 28,495,000.00	\$ 28,495,000.00	5.000%	fixed
2021	\$ 21,960,000.00	\$ 21,960,000.00	5.000%	fixed
2022	\$ 32,960,000.00	\$ 32,960,000.00	5.000%	fixed
2024	\$ 55,675,000.00	\$ 55,675,000.00	4.800%	fixed
2025	\$ 58,095,000.00	\$ 58,095,000.00	5.000%	fixed
2026	\$ 17,075,000.00	\$ 17,075,000.00	5.000%	fixed
	<u>\$ 570,000,000.00</u>	<u>\$ 570,000,000.00</u>		

2002 Series C Original Issue \$202,385,000

Issue Expense	Unamortized Amount
Premium	\$ 1,515,442.00
	\$ 18,406,894.85

Maturity Date	Issue Amount	Current Outstanding	Interest Rate
---------------	--------------	---------------------	---------------

1	2010	\$ 17,750,000.00	\$ 17,750,000.00	5.000%	fixed
	2011	\$ 43,835,000.00	\$ 43,835,000.00	5.000%	fixed
2	2012	\$ 51,625,000.00	\$ 51,625,000.00	5.000%	fixed
	2013	\$ 39,005,000.00	\$ 39,005,000.00	5.000%	fixed
3	2014	\$ 30,030,000.00	\$ 30,030,000.00	5.000%	fixed
	2015	\$ 20,140,000.00	\$ 20,140,000.00	5.000%	fixed
4		<u>\$ 202,385,000.00</u>	<u>\$ 202,385,000.00</u>		

2002 Series D Original Issue \$104,065,000

Unamortized Amount

Issue Expense	\$ 779,778.85
Premium	\$ 9,267,852.40

Maturity Date	Issue Amount	Current Outstanding	Interest Rate	
2007	\$ 40,445,000.00	\$ 40,445,000.00	5.000%	fixed
2008	\$ 36,755,000.00	\$ 36,755,000.00	5.000%	fixed
2009	\$ 26,855,000.00	\$ 26,855,000.00	5.000%	fixed
	<u>\$ 104,065,000.00</u>	<u>\$ 104,065,000.00</u>		

EXHIBIT I

Exhibit I

Salt River Project Agricultural Improvement and Power District
Usage of Revenue Bond Authorization
As of April 3, 2003

New money bond authorization available at February 14, 2001	\$ 72,749,710
2001 new money bond authorization*	<u>500,000,000</u>
Total new money bond authorization available	\$ 572,749,710
Less: 2002 Series B Bonds issued	<u>570,000,000</u>
New money bond authorization available at March 10, 2003	<u>\$ 2,749,710</u>

*Excludes authorization available to refund the District's commercial paper program.

EXHIBIT J

Exhibit J

Salt River Project Agricultural Improvement and Power District
Outstanding Refunding Revenue Bond Authorization
As of April 1, 2003

Commission Decision No.	Date of Decision	Outstanding Authorization	Authorization		Authorization		Balance
			Used	2002 Series A	Used	2002 Series C	
53806	11/22/1983	\$ 50,926,070	\$ 4,973,822	-	\$ 14,778,543	\$ 31,173,705	
56381	3/9/1989	221,929,262	197,548,611	-	24,171,801	208,850	
58386	9/1/1993	29,574	-	-	-	29,574	
58625	4/28/1994	1,971,683,445	230,037,567	202,385,000	65,114,656	1,474,146,222	
64253	12/4/2001	<u>550,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>550,000,000</u>	
TOTAL		<u>\$ 2,794,568,351</u>	<u>\$432,560,000</u>	<u>\$202,385,000</u>	<u>\$104,065,000</u>	<u>\$2,055,558,351</u>	

This Exhibit summarizes the amount of usable outstanding authorization for refunding bonds (excluding commercial paper) under prior Orders of the Commission. Note that many of the Orders restrict the issues that can be refunded under the Order and in several cases there are no outstanding bonds that meet the required restrictions.

EXHIBIT K

CELEBRATING A CENTURY OF SERVICE



Salt River Project 2002 Annual Report



C O N T E N T S

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Under the glare of the Arizona sun, men and women in the Salt River Valley farmed the land and wrestled with the river's unpredictable nature.

Through droughts and floods, these early settlers persevered. But the prospects of prosperity stopped at their doorsteps as uncertain water conditions prevailed.

In 1903, with the formation of what became known as SRP, a lasting solution emerged. Early activities included construction of Theodore Roosevelt Dam, which stabilized the water supply and offered new promise to agriculture and industry in the Valley.

Over the century that followed, SRP enhanced water supply and delivery as well as developed an extensive electrical system that is among the most efficient in the nation.

SRP's story is compelling and complex — of men and women, hardship and foresight, commitment and success. It is woven into the economic, cultural and social fabric of the Salt River Valley.

As SRP approaches its 100th year of service, it still can be said with conviction:

***“Great things will take place in the Salt River Valley
due to this project.”***

— Theodore Roosevelt, March 18, 1911, at the
dedication ceremony of the dam named in his honor

A LETTER TO OUR CUSTOMERS,

BONDHOLDERS AND SHAREHOLDERS



Today, with SRP on the eve of its centennial, the Salt River Valley is a beautiful and inviting land of opportunity. Our annual report this year celebrates SRP's first century of service, recaps the past year's operational activities and reviews our preparations for the future.

We are proud to report another successful year and to highlight on the following pages our stable financial performance and continued accomplishments in service, safety and reliability.

***Safety is always a priority – for employees and
our communities. This year, we again received
the American Public Power Association’s
first place award for safety among public
power utilities in the U.S.***

Combined net revenues of \$19.8 million for the year, while less than expected, are respectable in the industry today. Our debt service coverage ratio – the number of times we cover principal and interest from net operating revenues on a cash basis – was a very strong 3.09. Funds available – internally generated cash from operations after expenses and debt service – were a robust \$364.3 million. We consider this a very solid level of performance in view of the dramatic decreases in wholesale prices and the continuation of statutorily established price caps for retail prices in our service area.

Today, deregulation of the electric industry is at a crossroads. The future of deregulation of the wholesale electric market as well as competition in the retail electric market is ambiguous at best. For SRP and many utilities in the West, the Federal Energy Regulatory Commission’s price mitigation plan of last summer brought an end to superheated prices and volatility in the Western wholesale market.

However, we have entered a new era of uncertainty, with multiple efforts to restructure the wholesale market and to investigate participant conduct.

Arizona also is re-examining issues that have emerged as the result of failures in deregulated markets. The Arizona Corporation Commission, which regulates investor-owned utilities, and the state Legislature, which establishes parameters for publicly owned entities like SRP, are re-examining retail competition. We favor a thorough review of the successes and failures of energy deregulation, always with a close eye on the protection of consumer interests and a platform of local control. We must ensure that current uncertainties do not pose an unacceptable risk when dealing with a commodity that is central and essential to the health and lifestyle of the Valley.

SRP is fortunate to provide services in ever-expanding central Arizona, where population growth and power demand are consistently above national averages. We added 26,000 new customers this past year, up 3.5 percent from the year before. At the same time, average household electricity consumption per month reached nearly 1,275 kilowatt-hours.

Our generating resources have increased substantially from the previous year, adding both natural-gas and coal-fired facilities. The SRP electric system

***Community commitment is a cornerstone
of our business. This year, SRP received the
American Public Power Association's top award
for service to our communities.***

performed very well last summer, and with the additional generation available, we are in good condition for summer 2002. We will continue construction of additional gas-fired generation this year, and we are in discussions on new coal-fired generation, reinforcing our commitment to fuel diversity.

Significant concerns with fuel diversity have led us to pursue some unique solutions to ensure future natural gas supplies. The existing pipeline system in the West is expected to be strained to its limits by increased construction of gas-fired generation. As a result, we are pursuing the development of new gas storage and pipeline capacity.

A most pressing issue in our industry is the lack of transmission investment in the West. SRP is moving ahead with major transmission lines to serve our customers, with two 500-kilovolt transmission lines under construction or in development in our service area. These expansions will permit import of new generating sources and increase access to other markets during times of surplus.

SRP owns about 80 percent of the generation resources needed to serve our retail customers.

Favorable long-term contracts cover the balance. As a result, our trading operations are small relative to core operations, dealing mostly with seasonal sales of excess energy or temporary reserves. In a volatile market, we continue to enhance our ability to manage the financial risks inherent in electricity and natural gas transactions. We have improved our analytical capability, strengthened our procedures, and implemented new strategies to mitigate risk.

Meanwhile, public power's unique role in the wholesale electric market continues to be challenged. At SRP, we restate our conviction that local control provides significant benefits for customers and communities.

We continue our commitment to customer service. Our M-Power® program, the prepaid metering option developed to assist customers in controlling energy costs, has become a successful and popular option for many customers. In fact, with M-Power, "Custom Due Date" and several other programs, SRP signed up more than 60,000 customers to

new service options this year. In all, nearly 94 percent of electric customers surveyed said they are "highly satisfied" with our service.

Currently, our water business faces a unique set of challenges. A major drought is entering its fourth year in Arizona on the Salt and Verde river watersheds. A similar situation is developing on the Colorado River watershed. The Phoenix metropolitan area has avoided serious impacts of the drought because of prior planning efforts, including access to the Central Arizona Project (CAP) aqueduct, which delivers water from the Colorado River. SRP has acquired significant quantities of CAP water and has maximized pumping. However, continued drought conditions could result in reductions in allocations to water users and restrictions on usage.


Through it all, SRP maintains a solid commitment to the communities we serve. Early company pioneers were community builders, and this tradition endures. SRP embraces the future of the Valley with long-range planning to ensure reliable, affordable power and water supplies. We continue to support and provide community programs that build and enrich lives.

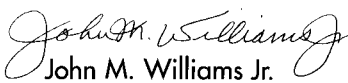
We are ever mindful of the public trust established by SRP over time. Due to the tragic events of

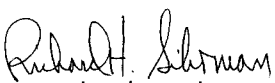
September 11 and their aftermath, we increased security measures at power and water facilities and operations centers, which remain in effect today.

As we enter SRP's centennial year, we extend sincere appreciation to the men and women who demonstrated the dedication and foresight to make this milestone possible. To SRP's outstanding employees, we say "thank you" for your hard work this year as we continue our legacy of excellent service. And once again, SRP's elected officials demonstrated their commitment to our communities, electric customers and water shareholders.

Looking to the future, we offer this guarantee: SRP will hold true to our mission of ensuring the vitality of the Salt River Valley.


William P. Schrader
President


John M. Williams Jr.
Vice President


Richard H. Silverman
General Manager



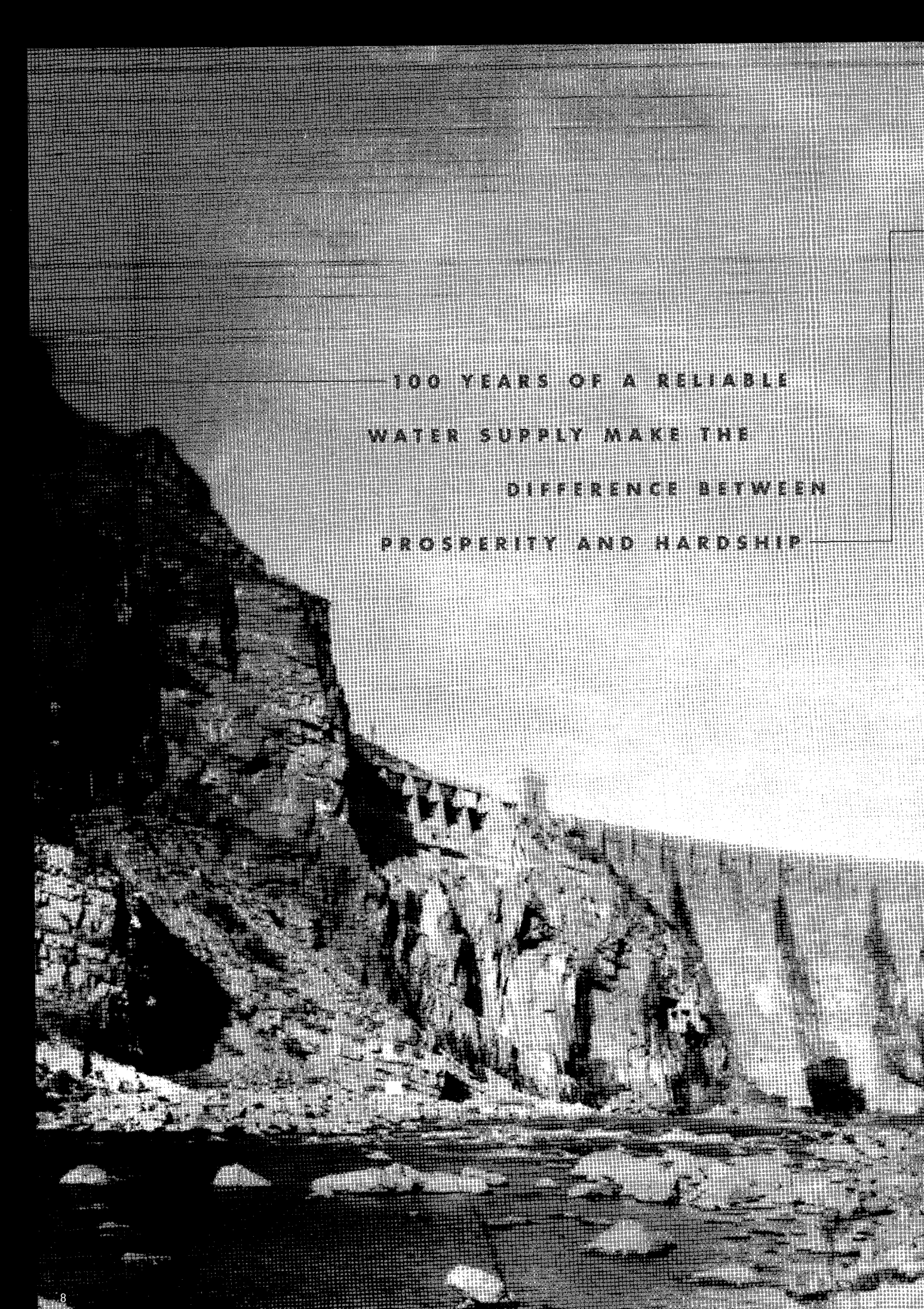
The year Benjamin A. Fowler moved to Arizona was a dire one for water. Two years of drought and low flows in the Salt River combined to kill crops and run off residents.

The Valley was at a water crossroads.

Fowler, a book publisher from the East who came to Arizona for a new career as rancher and businessman, took on the challenge. It was 1899.

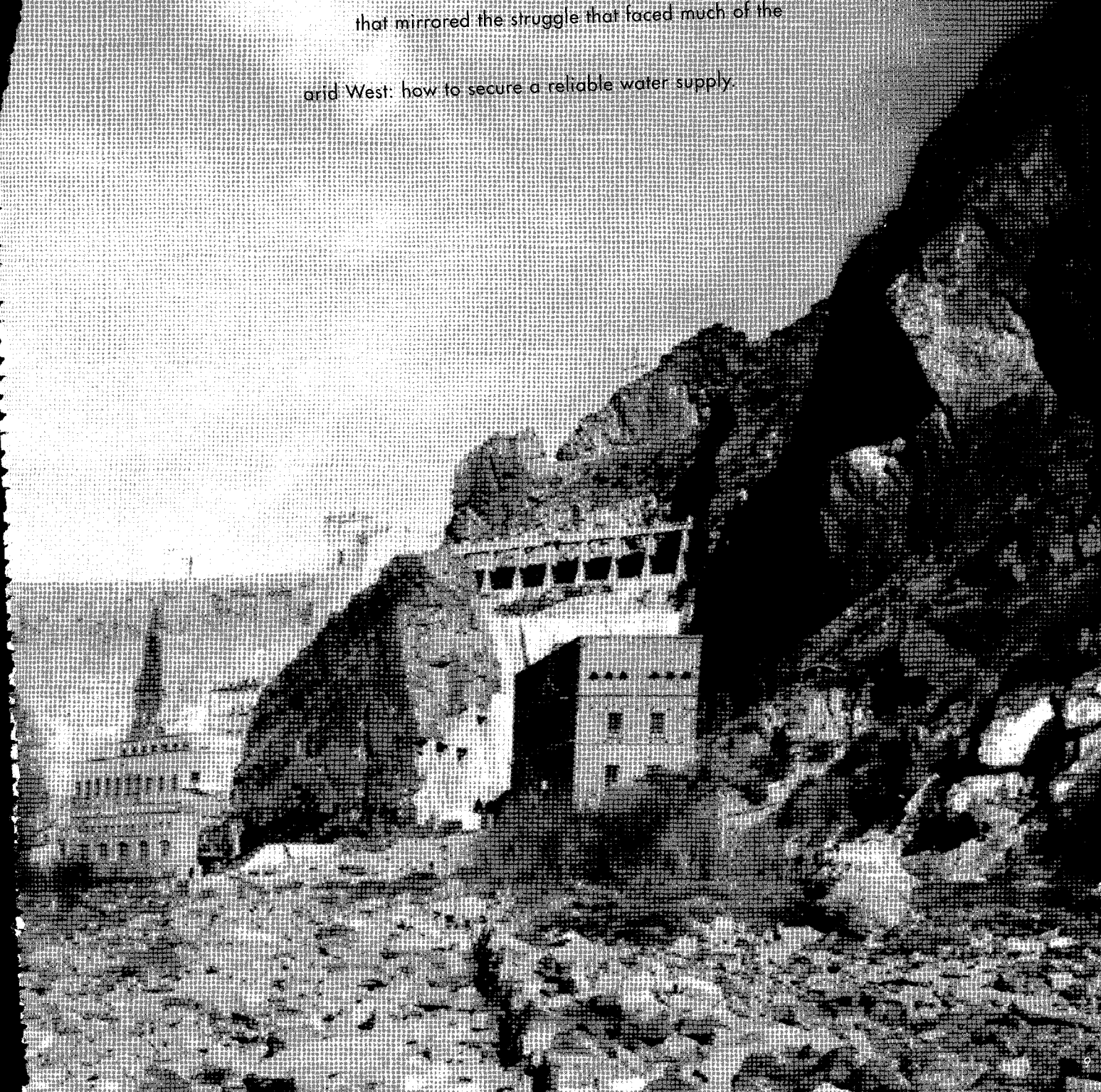
Elected to the Arizona Territorial Legislature, Fowler argued in Arizona and Washington, D.C., for passage of the National Reclamation Act of 1902. Working with landowners, Fowler gathered the support needed to form the Salt River Valley Water Users' Association. These landowners pledged their lands to secure a loan to build Theodore Roosevelt Dam, the cornerstone of the Salt River Federal Reclamation Project. In doing so, Fowler and other community leaders secured a stable water supply for the Valley. Fowler served as the first SRP president.

Today, the thriving Phoenix metropolitan area is a testament to Fowler and so many others who recognized federal reclamation as "*a magnificent experiment*" – one that would bring long-lasting water security and economic prosperity to the Salt River Valley.



100 YEARS OF A RELIABLE
WATER SUPPLY MAKE THE
DIFFERENCE BETWEEN
PROSPERITY AND HARDSHIP

When SRP was incorporated in 1903, the Valley was in the grips of a severe drought. The Salt River ran dry, crops withered and many farmers moved elsewhere. It was a situation that mirrored the struggle that faced much of the arid West: how to secure a reliable water supply.



1903

1911 Theodore Roosevelt Dam
is dedicated, the world's
largest masonry dam.

1903 Salt River
Valley Water Users'
Association is formed.

Historically, the Salt River has served as the Valley's primary water source. The Hohokam Indians relied upon it for irrigation and farming. The reasons for their departure around 1450 A.D. remain a mystery but speculation centers on a chronically unpredictable water supply.

In the mid-19th century, settlers to the Salt River Valley recognized the potential of the fertile Valley lands nestled between the desert mountains. Small canal companies created water delivery networks

Water Year In Review

As our centennial year approaches, the Salt River Valley and Arizona are in the midst of four consecutive years of below-normal precipitation. Winter and spring runoff into the Salt and Verde river watersheds during that period is the lowest since reliable gauging records began. Meanwhile, water stored in the SRP reservoir system is far below normal.

This challenge is similar to the one when SRP was formed, and we are prepared to meet it. To supplement the limited surface water supply, more groundwater will be pumped for the balance of 2002 and throughout 2003, or until the dry conditions subside.

Water also will be purchased or "exchanged" with the Central Arizona Project (CAP) to supplement Salt and Verde surface water. And by expanding our underground water storage

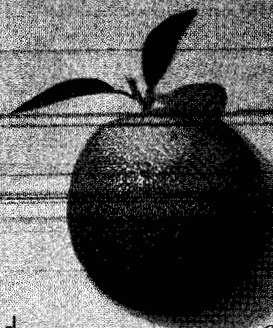
efforts, we are providing an opportunity for the state to maximize its Colorado River allocation.

For the year, water deliveries were about 1 million acre-feet. Gauged runoff was 75 percent of normal, water in storage was 34 percent of capacity, and groundwater pumping was more than double the norm. These data are for calendar year 2001.

In collaboration with other water agencies in the state, this past year we worked with the CAP and the Arizona Legislature to enact a law that permits multi-year water exchanges. This provides greater flexibility in managing water supplies for our growing population by allowing the acquisition of excess Colorado River water through multi-year arrangements.

Keys to future water supplies for both urban and rural users are water rights education, resource

1921 Aggressive expansion begins with three new hydropower dams built on the Salt River.



SRP completes the last of seven dams on the Verde and Salt rivers to support Valley water needs and the burgeoning agriculture industry.

across the basin. But lack of water during the summer growing season was a constant worry. Toward the end of the 19th century, various attempts to develop dams and reservoirs failed for lack of funding.

The National Reclamation Act enacted by Congress and approved by President Theodore Roosevelt offered a solution to the water dilemma. It provided a new funding mechanism to finance irrigation projects to store and deliver water.

Upon passage of the Act, Valley ranchers and farmers took action. They formed the Salt River Valley Water Users' Association, and pledged their lands as collateral on federal loans to build what was known as the



It was June 1915, and the first water spilled from Theodore Roosevelt Dam was being carried to New York City by an Arizona delegation for the christening of the USS Arizona.

Newspaper accounts from the time tell the story of a controversy over whether champagne or water would be used to christen the most powerful battleship ever built for the U.S. Navy. Then-Arizona Gov. George W.P. Hunt, to settle the controversy, made an 11th-hour decision – both would be used!

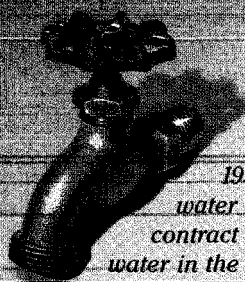
Upon completion, Roosevelt Dam was widely recognized as an extraordinary example of engineering and vision. The water that had been captured some weeks earlier just for the event represented liquid gold for Arizona – sustenance for a land of promise and opportunity. The glass bottle in which it was contained was wrapped in a copper wire mesh provided by two Arizona mining companies.

SRP has managed the dam for 85 years. A major modification completed in 1996 added space for storage, flood control and dam safety, all in the interest of prudent water management for future generations.

1950

1960

1970



*1952 SRP enters
water delivery
contract for municipal
water in the Valley.*

"Salt River Federal Reclamation Project." Soon, the newly formed U.S. Reclamation Service began to build the "Project," which included Theodore Roosevelt Dam and water system improvements that would boost the area's farming industry. The Association took over operation and maintenance of the Project in 1917 from the Reclamation Service and, in doing so, assumed responsibility for building and sustaining the Valley's water supply.

SRP and local communities worked together through the decades to meet the needs of an increasing population. Additional dams were constructed on the Salt and Verde Rivers, and over time urban water users outnumbered agricultural users. Urbanization led to improved water facilities, increased water



*1955 Final payment is made for construction
of Roosevelt Dam.*

planning and scientific studies to identify water available for growth. We are participating in planning activities overseen by rural organizations to address water resource issues, and we continue to provide technical assistance in evaluating water rights to meet changing needs.

Conservation also plays an important role in managing the water supply. We provide water-saving advice to urban and agricultural users throughout the Valley and partner with cities to encourage water conservation by municipal residential users. In addition, SRP takes municipal effluent for power plant cooling purposes and in exchange provides surface water to Valley cities.

Underground storage facilities "bank" water for tomorrow

With a look to the future and continued growth, we are working with local municipalities to put water "in the bank" for the years ahead.

The New River-Agua Fria River Underground Storage Project will store excess water in natural underground aquifers for future use. SRP will operate the new facility, which when complete will have the capacity to store up to 100,000 acre-feet of water per year.

A similar recharge facility, also operated by SRP and known as the Granite Reef Underground Storage Project, has "banked" more than 600,000 acre-feet of water since 1995. An acre-foot is enough water for a family of four for one year.

1980

1990

2003



1985 The Central Arizona Project is complete, bringing Colorado River water to central and southern Arizona.

2001 SRP and CAP agree to exchange surplus water supplies to meet Valley water needs.

Flooding wreaks havoc across Salt River Valley

...nted Press

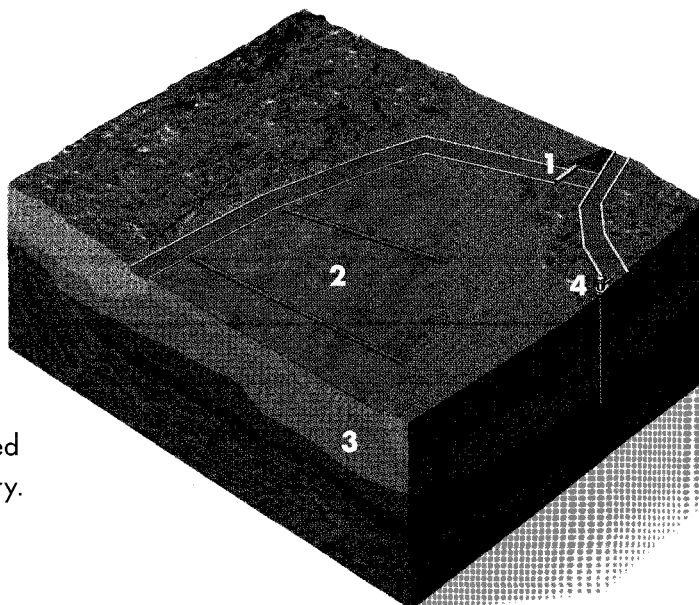
1978 First of three years of Valley flooding begins, leading to federal Safety of Dams Act.

quality monitoring and an extensive well system. Since the 1950s, under contract with Valley cities, SRP delivers raw water to municipal treatment plants based on allotments for eligible lands. The cities, acting as agents for landowners, deliver water to residents. SRP continues to supply water to farms and urban irrigators.

Much of Salt River Valley's growth is directly linked to SRP's efforts to ensure reliable water storage and delivery. Today, the Valley is one of the largest, most vibrant and promising metropolitan areas in the nation.

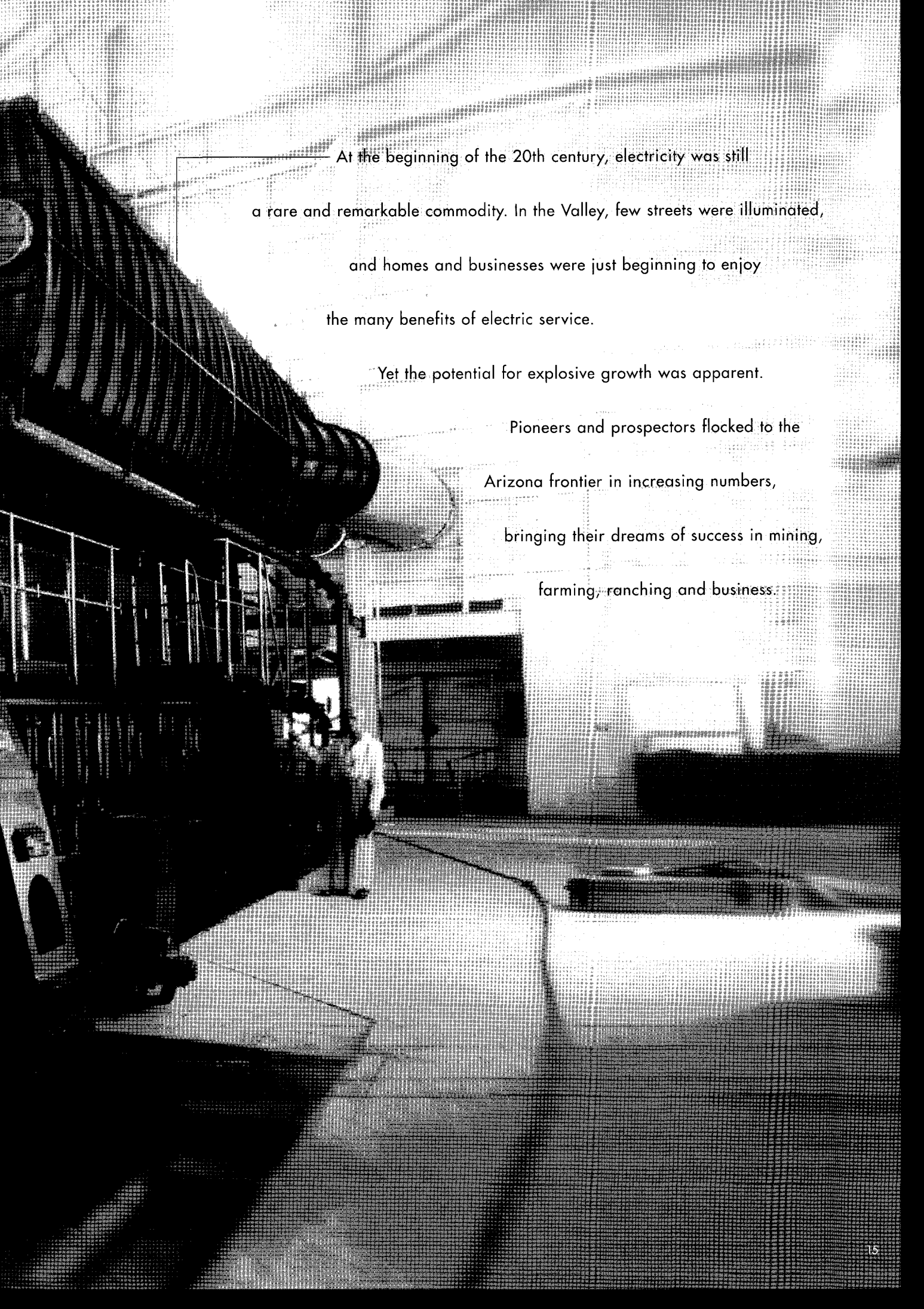
How an underground water storage project works

- 1 Water is delivered by canal to the recharge basins.
- 2 In these basins, the water percolates through the porous sand and gravel above to the water table.
- 3 The water reaches the underground aquifer, where it is stored.
- 4 As the need arises, water can be pumped out and returned to the canal for delivery.



ELECTRICITY POWERS
THE CONTINUED GROWTH
AND EXPANSION OF
THE SALT RIVER VALLEY





At the beginning of the 20th century, electricity was still a rare and remarkable commodity. In the Valley, few streets were illuminated, and homes and businesses were just beginning to enjoy the many benefits of electric service.

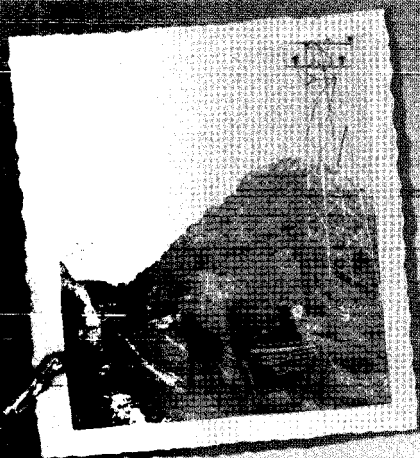
Yet the potential for explosive growth was apparent.

Pioneers and prospectors flocked to the Arizona frontier in increasing numbers, bringing their dreams of success in mining, farming, ranching and business.

1910

1909 First power to the Valley
is delivered from Roosevelt Dam.

1912 SRP agrees to supply
hydroelectricity to mining
activities in central Arizona.



When the National Reclamation Act of 1902 made possible the construction of Theodore Roosevelt Dam, the door also opened to a new era in electric generation and delivery. Specifically, power was needed at the remote site for the dam's construction. By 1909, the Roosevelt hydropower plant was built and power from it was being delivered to the Valley.

In 1917, SRP assumed responsibility for management of the water and power facilities from the U.S. Reclamation Service. Over the next two decades, six new hydroelectric plants were constructed. In the late 1920s, SRP initiated a rural electric system for Valley farmers – almost a decade ahead of a similar national program – which expanded electricity to outlying agricultural lands and spurred local development. Meanwhile, small private companies continued to supply power to the towns in the Valley.

As SRP's electric business grew, so too did the need for financing operational growth. Under a state law that provided municipal status to entities engaged in reclamation activities, the SRP Agricultural

Power Year In Review

Staying ahead of the demand curve is our specialty. Over the years, planning for electricity needs has supported growth and development of the Valley. Today, to keep pace with ever-increasing demand, we continue to upgrade electricity supply and delivery capabilities in ways that recognize the environmental sensitivities of our local communities.

We are testing a newly completed 250-megawatt (MW) urban generating station in the Valley community of Tempe. This plant will be among the cleanest natural-gas-fueled generators in the nation. We continue to move ahead on a new 825-MW natural gas plant in neighboring Gilbert, with construction scheduled to begin in 2003. In addition, we began receiving power under a 10-year agreement for 598 MWs from a new generating plant south of our service area.

As a result of aggressive maintenance, our Navajo and Coronado generating stations made significant improvements to forced-outage rates during the summer of 2001. The "effective availability" (ability to respond when needed) of our three Valley plants also improved. We expect similar results this year due to extensive, continued maintenance.

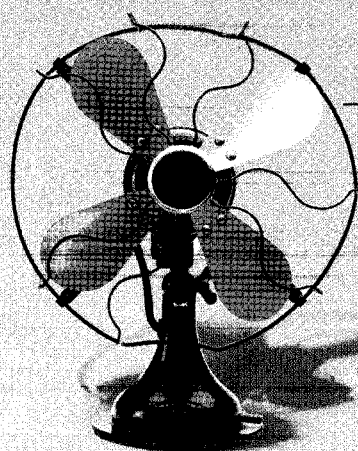
We are diversifying our fuels portfolio and are working to improve supply reliability. One project under consideration, a natural gas storage and transportation system, would deliver natural gas from near Las Vegas, Nev., to southwestern Arizona and connect with all major interstate pipelines in Arizona and southern Nevada.

In addition, we received federal approval to mine low-sulfur coal at the proposed Fence Lake Mine in western New Mexico. The project will provide coal to our Coronado Generating Station in eastern Arizona.

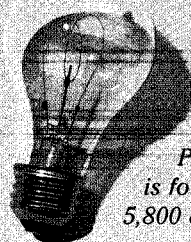
1920

1930

1940



*1928 SRP
expands electric
system to serve
Valley agriculture.*



*1937 SRP
Power District
is formed, serving
5,800 customers.*

*1941 SRP begins major Valley
generating plant expansion to
serve growing population.*

Improvement and Power District was created in 1937. That same year, SRP began work on its first diesel-powered generating plant and plans were initiated for other facilities that would lessen dependence upon unpredictable hydropower.

The District helped to finance and repay debt on water operations, as a means of covering the costs of continued improvements to water storage and delivery. This proved an invaluable benefit to water system development in the post-Depression years and in the years since.

The Valley's population exploded after World War II and so too did demand for electricity, spurred by the advent of air conditioning and a rapidly expanding high-tech industry. The rural landscape began

And the numbers have changed over time...

Since its inception, the SRP power business has experienced phenomenal growth. Initially serving 13 customers in 1909, the number grew to 22,000 in 1950, to nearly 773,000 customers today.

SRP's original generating capacity was just 8 megawatts, enough to supply a few regional mines, small communities and farms. Since then, necessity and technology have increased SRP's capacity to more than 6,000 megawatts. (A megawatt is 1,000 kilowatts).

Today the technology age, with its numerous electricity-consuming devices, contributes to the average SRP residential customer's use of about 1,275 kilowatt-hours per month.

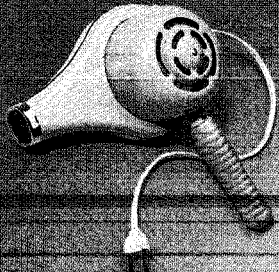
From some 165 miles of transmission lines in 1920, SRP now owns or shares ownership in more than 2,650 miles of transmission lines throughout the West. This extensive system allows SRP to import electricity when needed and to export excess generation in times of surplus.

SRP's electric prices to retail customers, when adjusted for inflation, are just about the same as they were 50 years ago. Our long-standing commitment to low prices is a cornerstone of our electric business.

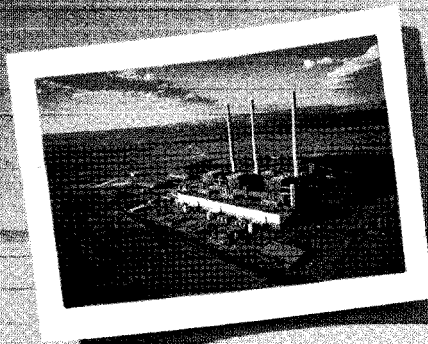
1950

1960

1970



*SRP serves
22,000 electric
customers.*



*1968 Plans announced for
\$328 million power plant near Page.*

*1975 Power district
now serves 249,000
customers.*

*1975 SRP becomes a
partner in Palo Verde
Nuclear Generating
Station, the first
nuclear power plant
to serve Arizona.*

its dramatic transition to cityscape. By this time, SRP had developed additional generation and transmission facilities and was delivering power to urban customers.

In an area where the population has increased 10-fold since 1950, staying ahead of the growth curve is an engineering, financial and operational challenge. SRP increased generating capacity 30-fold from 1950 to 2000 by building more power plants and partnering with others on new facilities. Today, new plants are located closer to customers and incorporate cleaner technologies. Renewable energy sources are available and more are in development.

To manage growing transmission needs, we are participating with other electric transmission line owners in the Southwest to form WestConnect, a regional transmission organization (RTO). The Federal Energy Regulatory Commission has proposed RTOs to facilitate development and operation of transmission on a regional basis. In addition, we received state approval to construct a high-voltage transmission line, with Arizona Public Service Co., to serve population and business growth in the western reaches of our service area.

We also began a public involvement process to site a 500-kilovolt (kV) electric transmission line. The line will transport power from an area near the Palo Verde Nuclear Generating Station, west of the Valley, to northern Pinal County. In addition, a 230-kV line will be sited from the Pinal County location into east Mesa in our service area.

New distribution facilities are critical to our ability to continue delivering reliable service. Forty miles of new or upgraded 69-kV and 230-kV distribution lines and nearly 50 distribution substations are planned in the next five years. We also will increase the capacity of 127 miles of existing 69-kV lines through wire replacement.

We continue to replace older wood poles with heavy-duty steel poles in strategic areas to guard against damage during storms. To date, more than \$32 million has been dedicated to these upgrade efforts. In addition, we have invested about \$133 million since 1996 in underground cable replacement. These investments already are paying off. Our system reliability performance this past year compared very favorably to other utilities across the nation.

1980

1990

2003



1999 \$30 million
renewable energy expansion
program begins for SRP
customers.

2000 First of many new SRP
power plant and transmission
expansion initiatives is launched.

2000 SRP reduces prices for the
fourth time in six years, making
average prices 10 percent lower
than a decade earlier.

2002 SRP serves
nearly 773,000
electric customers.

Over the past decade, SRP retail electric prices have dropped an average of 10 percent. In fact, SRP's prices consistently remain lower than those of utilities in neighboring states and other major utilities in Arizona. As a public power utility, cost savings are reinvested into operating and capital needs to better serve our customers.

Through every boom and bust cycle of the 20th century, SRP managed the power system to meet the needs of customers, applying new technologies and operational efficiencies along the way. Today, SRP is one of the nation's largest public power utilities, serving nearly 773,000 customers with low-priced, reliable electricity and continuing to plan for the Valley's future.

Past meets future at historic canal site

The new Arizona Falls Hydroelectricity Project takes us back to our roots. Using the flowing water of a canal to produce power, the plant will generate about 750 kilowatts in "green" energy each year while serving as an example of the benefits of renewable energy.

In the early 1900s, this same central Phoenix location was the site of the community's first hydroelectric generator. The plant also was one of the first of its kind in the West, and featured a waterfall that drew Phoenixians for picnicking and playing alongside the canal.

The new Arizona Falls will be much more than a hydroelectric plant. SRP, the neighborhood and the city of Phoenix are working together to re-create the historic site as a gathering place.

The original generator building will be transformed into a "water room" where visitors will be able to view some of the old gear works through sheets of cascading water. Water flowing from two mini-canals will create a waterfall reminiscent of the historic structure. The project also will include solar panels for on-site electricity.



COMMITMENT TO THE VALLEY'S
SUCCESS CREATES A LASTING
BOND BETWEEN SRP
AND LOCAL COMMUNITIES



In a very real way, the Salt River Valley and SRP grew up together. In 1903, when SRP was incorporated, the Valley was predominantly rural. Small towns, including Phoenix, dotted the agricultural landscape.

The need for an assured supply of water created a lasting bond between SRP and these communities.

With reliable water, farming prospered and attracted more business to local towns. By 1920, the Valley's population approached 100,000 and continued to climb.



1900

1910

*"You may see the day when
75,000 to 100,000 people will live
in this Valley."*

— Theodore Roosevelt, 1911, at
Tempe Normal School, now ASU



*1912 Arizona becomes
the 48th state.*

Of course, local community needs were much different in the early years than they are today. The basic foundations of social and cultural life were being established. Schools and hospitals were needed, as were libraries and improvements to local sanitation and law enforcement.

Like today, SRP was locally owned, with board and council members elected from the area who were as concerned about building the community as they were about securing the water and power resources critical to economic vitality.

Over the years, SRP and Valley communities have worked together to enhance the positive image of the Salt River Valley. The first beautification efforts were launched in the 1920s, with SRP engaged in

Community Service Year in Review

We believe a company can make a positive difference in the communities it serves. Our long-standing ties to local communities mean we take seriously our responsibility to protect the environment, and to support programs that help improve education, expand human services, and promote water and electric safety.

Our company-sponsored efforts included the *SRP Solar Splash 2002* regatta, in which dozens of high school students built and raced boats equipped with photovoltaic systems funded by SRP grants. *Solar Splash* is part of our renewable energy education program reaching schools throughout Arizona.

We also awarded more than \$40,000 to schools across the Valley through SRP's *Project RESOURCE* grant program. This program funds special activities that can benefit an entire school population.

For example, elementary school children in the community of Buckeye will learn science by building rockets, while students in Mesa will receive additional help learning to read.

Another SRP-sponsored program provides school-based mentoring for at-risk teenagers. Participating middle school students serve as tutors for elementary school children, and the results are promising: improved grades and better communications between the students' families and schools.

Our community outreach this past year included the seventh annual *SRP Mowing Down Pollution*, the largest gas-mower-recycling program in the nation. This effort has retired about 14,175 gas mowers, helping to eliminate thousands of tons of carbon monoxide and ozone-causing pollutants from the Valley's air every year. This year's program collected nearly 1,100

1920

1930

1940



Phoenix area population approaches 100,000 and doubles over the next 20 years.

1941 WWII stimulates major economic upswing in Phoenix area, marking the opening of an era of industrial expansion and prosperity.

1947 Building permits in the Valley reach record \$10 million

maintaining roads, trails and canals as the Valley promoted its image to attract new residents and business. Economic development activities, supported by local businesses including SRP, sought to lure more commerce and industry to the area.

SRP's community commitment has taken many forms. For example, during the difficult years of the Great Depression, SRP secured a loan to provide



Ella Fowler, wife of the first president of SRP, is one of scores of women who are a lasting tribute to community building in the Valley.

While her husband campaigned in Washington, D.C., for legislation that would result in the formation of SRP, Ella Fowler worked to build upon the basic foundations of local communities in the early 1900s.

She was among the founders of the Phoenix Women's Club, which was a wellspring of initiatives for social and cultural reforms, including the Arizona juvenile court system, Phoenix Carnegie Library, and public sanitation improvements. She served as president of important organizations, and founded a child welfare organization that was the predecessor to the Arizona Parent-Teacher Association.

Ella Fowler is remembered in Arizona history as an accomplished speaker and a woman with great executive ability. Her legacy of community commitment is mirrored today by the efforts of SRP employees and their families who give their time and resources to improve lives in the Valley.

1950

1960

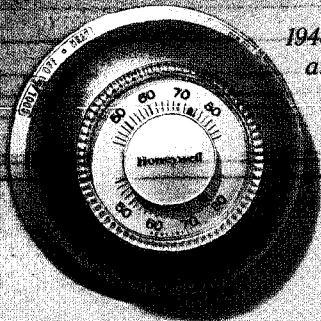
1970

1950 Valley County
population grows
to 130,000.

1955 Manufacturing replaces
farming as the Valley's #1
economic source, with tourism
moving up to third place.



1968 Salt River Pete served as
the face for SRP's community
safety efforts in the 1960s
and '70s, reaching hundreds
of thousands of school
children and gaining
recognition as an outstanding
water safety program in the
United States.



1948 Residential
air conditioning
comes to the Valley.

emergency financing for Valley farmers, saving homes and farms that might
otherwise have been lost.

By mid-century, SRP adopted an aesthetics program that was responsive to
neighborhood needs. Power lines were placed underground, and substations were
designed to complement their surroundings. Community aesthetics continue today as a corporate priority.

The Valley's post-WWII population explosion is credited in part to the assurance of essential resources
including ample water and electricity. SRP undertook major electric and water system improvements
in the 1940s and 1950s to keep pace with demand and ensure readiness for the future. In this way,
SRP's commitment is directly linked to the success of local communities.

gas-powered lawn mowers and replaced them
with new electric models.

Other efforts include *SRP Safety Connection™*,
which provides electricity- and water-related
safety information to our customers and the public.
The safety campaign includes radio and print
advertising, newsletter articles and participation
in Valley events. Through *SRP Safety Connection*,
we distribute more than 200,000 electric and
water safety coloring books in English and Spanish
each year.

In recognition of Arizona's 90th anniversary
this year and our long history with the state,
we contributed \$76,000 to the Arizona Capitol
Restoration Project. The donation is being used
to fund the restoration of the rotundas on the
first, second and third floors of the historic capitol.

SRP and our employees contribute to the Valley's
United Way campaigns, supporting the programs
and services of more than 400 local nonprofit
agencies. Employee contributions this past year
to the United Way and other community service
organizations topped \$1 million. SRP corporate
contributions and in-kind services to nonprofit
agencies and events throughout Arizona totaled
\$2.3 million for the year.

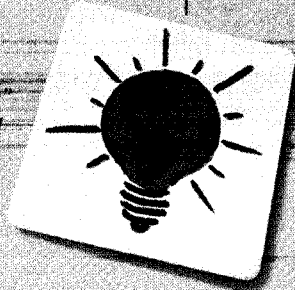
1980

1990

2003

1993 Valley population
reaches 3.5 million.

2000 SRP offers "EarthWise Energy"
to customers for the continued
expansion of environmentally
friendly electricity.

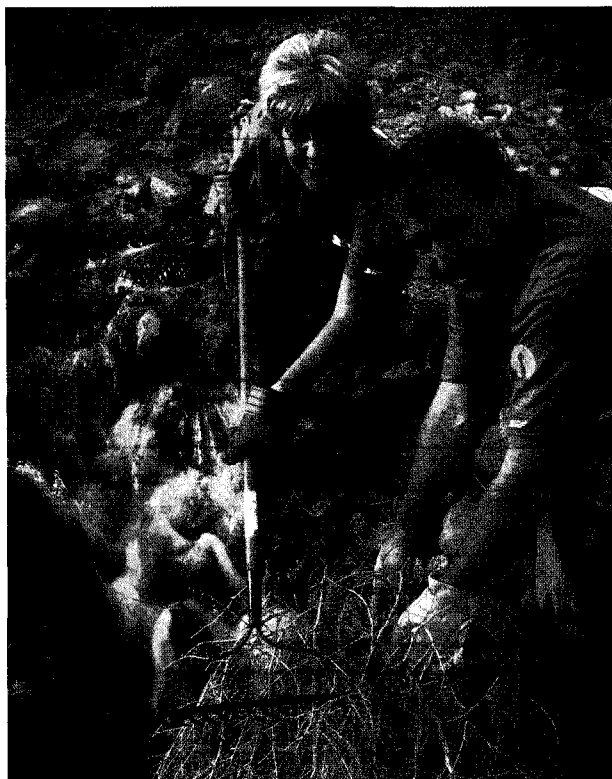


2002 SRP centennial
celebration begins.

Through the 1960s, the Valley and SRP continued to grow. During this period, SRP embraced environmental stewardship as a cornerstone of our community commitment. Major efforts were undertaken to improve water quality management and build cleaner power plants.

In the past 30 years, SRP has developed programs to fund and support education, human services, cultural programs and community safety. SRP employees are active in local organizations and are committed volunteers. In fact, community efforts to ensure the vitality of the Salt River Valley are so central to SRP's identity that they are included in our mission statement:

"We will deliver ever-improving contributions to the people we serve through the provision of low-cost, reliable water and power, and community programs, to ensure the vitality of the Salt River Valley."



SRP employees show volunteer spirit

Each year, SRP employees contribute approximately 700,000 hours of personal time to their communities. Through the *SRP VOLUNTEERS* program, 85 percent of SRP employees donate an average 3.3 hours per week to nonprofit organizations to improve life locally and statewide.

SRP employees' community efforts earned us the American Public Power Association's (APPA) Community Service award this year. This award recognizes activities that demonstrate commitment to the community. APPA is the trade association for the 2,000 community-owned electric utilities that serve more than 40 million Americans.

The dedication of our employee volunteers reflects our century-long tradition of support for Arizona and its future.

— SRP EXECUTIVE

MANAGEMENT —



(left to right)

D. Michael Rappoport *Associate General Manager - Public & Communications Services*

L.J. U'Ren *Associate General Manager - Operations, Information & Human Resources Services*

Jane D. Alfano *Corporate Counsel*

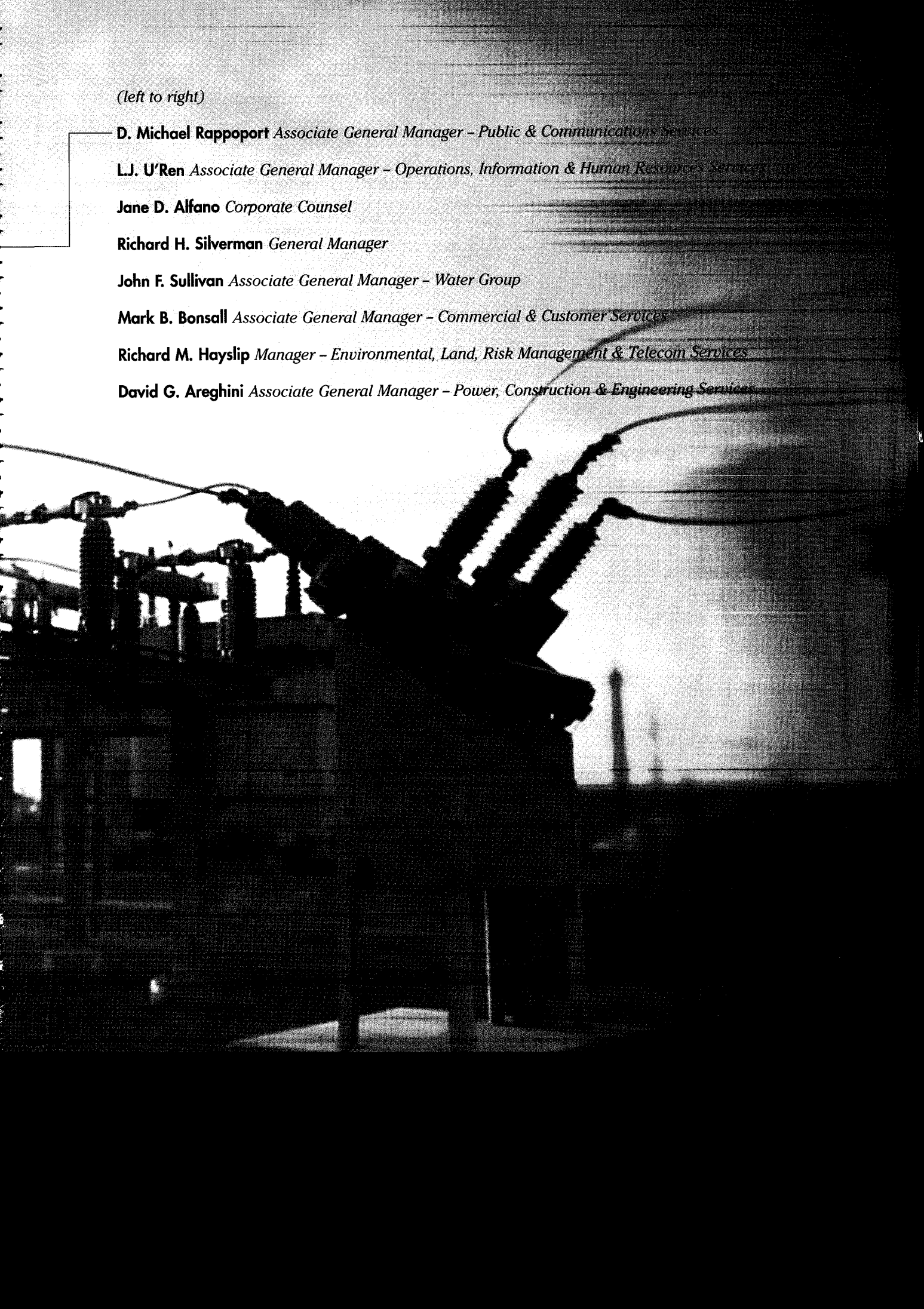
Richard H. Silverman *General Manager*

John F. Sullivan *Associate General Manager - Water Group*

Mark B. Bonsall *Associate General Manager - Commercial & Customer Services*

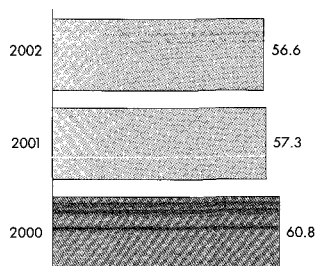
Richard M. Hayslip *Manager - Environmental, Land, Risk Management & Telecom Services*

David G. Areghini *Associate General Manager - Power, Construction & Engineering Services*

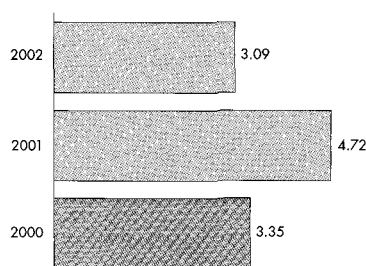


MANAGEMENT'S FINANCIAL AND OPERATIONAL SUMMARY

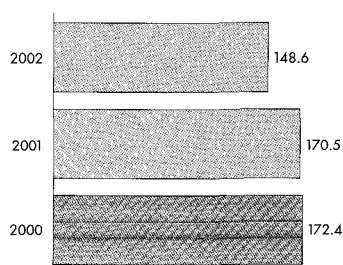
Debt Ratio (Percent)



Debt Service Coverage Ratio



Net Financing Costs (\$Millions)



This section explains the general financial condition and results of operations for SRP. SRP includes the Salt River Project Agricultural Improvement and Power District (the District), its subsidiaries, and the Salt River Valley Water Users' Association. The results of these entities are combined for financial reporting purposes.

Overview of Business – The District owns and operates an electric system which generates, purchases and distributes electric power and energy, and provides electric service to residential, commercial, industrial and agricultural power users in a 2,900-square-mile service territory spanning portions of Maricopa, Gila and Pinal counties, plus mine loads in an adjacent 2,400-square-mile area in Gila and Pinal counties.

The District has remained a vertically integrated organization. It has retained 100 percent of its existing generation assets and is developing additional resources to keep up with load growth. The fuel sources for existing generation are diversified, and planned additions include coal as well as natural gas resources.

SRP manages a system of dams and reservoirs and has responsibility for the construction, maintenance and operation of a water supply system to deliver raw water for irrigation and municipal treatment purposes. It provides the water supply for an area of approximately 248,200 acres located within the major portions of the cities of Phoenix, Avondale, Glendale, Mesa, Tempe, Chandler, Gilbert, Peoria, Scottsdale and Tolleson.

In 1997, the District formed a wholly-owned, taxable subsidiary, New West Energy Corporation (New West Energy), to market retail energy available to the District that is surplus to the needs of its retail customers, and energy that is rendered surplus by retail competition in Arizona. At this time, New West Energy does not market excess energy due to the turmoil in the California energy market. It continues to provide energy-related services to various customers and to monitor the market situation in the Southwest in contemplation of future activity.

The District's other subsidiary, Papago Park Center, Inc., manages a mixed-use commercial development known as Papago Park Center located on land owned by the District adjacent to its administrative offices. The District accumulated this land over a number of years for use by the District. The District has a long-range plan, which includes the private development of portions of Papago Park Center.

Results of Operations – SRP's net revenues for the fiscal year ended April 30, 2002, were \$19.8 million compared to \$309.7 million for the previous year. SRP adopted a new accounting standard in fiscal year 2002 that requires certain derivative instruments to be recorded at market value.

The effect of adopting this new standard on net revenues was a net loss of \$44.2 million. SRP's net revenues would have been \$64.0 million before applying this new standard. (This is discussed in more detail in **Accounting Change**.) Other items that influenced the decrease are described below.

Operating revenues were \$2.2 billion for fiscal year 2002, compared to \$3.0 billion for fiscal year 2001. The revenue decline this past year was due to several factors that impacted SRP and the utility industry, including a price mitigation order issued by the Federal Energy Regulatory Commission (FERC), excess generation resources in the marketplace, consumer conservation, and a general economic downturn.

The main factors were:

- In June 2001, the FERC imposed a price mitigation plan on wholesale electricity in the West. This action, combined with weather conditions and surplus energy supplies, drove down wholesale prices very significantly to levels more in line with historical norms. The District experienced more than a \$400 million decline in gross revenues from the wholesale market.
- The California situation prevented New West Energy, the District's affiliate, from selling into that market. As such, there were no energy sales made by New West Energy in fiscal year 2002. New West Energy focused on offering and providing energy-related services.
- The economic downturn impacted small and large industrial customers, with revenues from these customer classes decreasing by an aggregate of \$14.7 million.

Operating expenses were \$2.1 billion for fiscal year 2002, compared with \$2.6 billion for fiscal year 2001. The change between years is attributed to:

- Purchased power costs decreased as the market was affected by the FERC price mitigation plan and by excess supply.
- Fuel expense decreased due to lower prices on natural gas. The market price for natural gas was significantly lower than the previous year.
- Fiscal year 2001 had an additional \$85.0 million in expense as the District took a write-down on regulatory assets related to its implementation of direct access to its Generation services.
- As a result of our continued emphasis on reduction of debt capitalization, financing costs decreased by 13 percent from the prior year.
- The effect of accounting for derivatives under a new accounting standard resulted in an additional \$44.2 million net loss. See **Accounting Change** for further explanation.

In water operations, water delivery revenues were \$14.3 million compared to \$12.6 million the previous year. Water-related operating expenses were 14 percent lower than the prior year due to increased efficiencies.

Accounting Change – Effective May 1, 2001, the District adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133 requires that entities recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in net revenues or accumulated net revenues.

As of April 30, 2002, the valuation of market changes for the District's derivative instruments resulted in an unrealized net loss of \$44.2 million. Most of this impact relates to multi-year hedges on transportation costs from two major gas basins in the Southwest for natural gas used for retail generation. The District's net

MANAGEMENT'S FINANCIAL AND OPERATIONAL SUMMARY

revenues would have been \$64.0 million without the effects of SFAS No. 133. For a detailed explanation of the effects of SFAS No. 133 on the District's financial results, see Note 3 in the accompanying notes to the combined financial statements.

Energy Risk Management Program – The District's mission to serve its retail customers is the cornerstone of its risk management approach. This means that the District builds or acquires resources to serve retail customers, not the wholesale market. However, as a summer-peaking utility, there are times of the year when the District's resources and/or reserves are in excess of its retail load, thus giving rise to some wholesale activity. The District has an Energy Risk Management Program to limit exposure to risks inherent in normal retail and wholesale energy business operations by measuring and minimizing exposure to price risks, credit risks, and control risks. To meet the goals of the Energy Risk Management Program, the District uses various physical and financial instruments, including forward contracts, futures, swaps, and options. Certain of these transactions are accounted for under SFAS No. 133. For a detailed explanation of the effects of SFAS No. 133 on the District's financial results, see Note 3 in the accompanying notes to the combined financial statements.

The Energy Risk Management Program is managed according to a policy approved by the District's Board of Directors and overseen by a Risk Oversight Committee. The policy covers areas such as strategies, specific price and control risk issues and the credit policy that the District applies to its wholesale counterparties. The Risk Oversight Committee is comprised of senior executives. The District maintains an Energy Risk Management Department, separate from the energy marketing area, that regularly reports to the Risk Oversight Committee. In addition, the District has established a credit reserve for its activity in wholesale markets. The District believes that its existing risk management structure is appropriate and that any exposures are adequately covered by existing reserves.

Electric Pricing – The District has a diversified customer base and no single customer provides more than 2.9 percent of its operating revenues. The District has implemented projects and programs geared toward enhancing customer loyalty by offering customers a range of pricing and service options. Moreover, the District has reduced retail prices and is one of the low price leaders in the Southwest.

The District is a summer-peaking utility and for many years has made an effort to balance the summer-winter load relationships through seasonal price differentials. In addition, the District prices on a time-of-day basis for large commercial and industrial, and certain residential and small commercial users.

On November 26, 2001, the District completed a review of its price plans and the level of its Competitive Transition Charge (CTC) associated with stranded cost recovery. The District elected to retain the CTC at its current level until June 1, 2004, and approved a Fuel and Purchase Power Adjustment Mechanism that became effective May 1, 2002. Other changes to price plans became effective December 31, 2001.

Recapitalization Plan – The District has undertaken a plan to improve its operating efficiency and financing flexibility so that it is better positioned to remain competitive and to respond to future changes.

As part of the Recapitalization Plan, in December 2001, the District issued \$580.6 million Salt River Project Electric System Refunding Revenue Bonds, 2001 Series A, and in February 2002, the District issued \$432.6 million Salt River Project Electric System Refunding Revenue Bonds, 2002 Series A, to refund certain outstanding Revenue Bonds.

The District intends to use the proceeds of additional Revenue Bonds or available cash on hand to fund the cost of the refunding and redemption of, and/or purchase through the execution of an open market tender offer for, certain of the District's outstanding Revenue Bonds.

The goals of the Recapitalization Plan are: (1) to accelerate debt retirement by the District of its Revenue Bonds; (2) to provide the District with increased financing and operating flexibility in the future; (3) to issue new Revenue Bonds for distribution expenses; (4) to adopt a modern and more flexible bond resolution; and (5) to recognize debt service savings. If the District issues additional Revenue Bonds to finance distribution facilities, such issuance would enable the District to allocate revenues, which would have otherwise been used to pay for the costs of distribution facilities, to the payment of debt service.

Capital – The Capital Improvement Program is driven by the need to expand the generation, transmission and distribution systems of the District to meet growing customer electricity needs and to maintain a satisfactory level of service reliability. Of the total Capital Improvement Program, more than 30 percent of the funds are directed to generation projects. These include the expansion of the Kyrene and Santan Generating Stations in the southeast portion of the District's service territory. Another 30 percent of the funds are planned for expansion of the electrical distribution system to meet new growth and to replace aging underground cable. The addition of new 69-kV transmission facilities and the construction of a new high-voltage transmission line account for an additional 7 percent of the funds.

The District pays a portion of the cost for its Capital Improvement Program from internally generated funds and a portion from the proceeds of Revenue Bonds.

During the year, SRP increased its ownership position to 20 percent from 10 percent in the Mohave Generating Station, a coal-fired plant in Clark County, Nevada.

The District has entered into an agreement with UniSource Energy Development Company (UniSource) to explore the joint development of two additional coal-fired generating units, approximately 400 MW each in size, to be located at the existing Springerville (Arizona) Generating Station. The units would be operated by UniSource's affiliate, Tucson Electric Power Company. Construction of the units is subject to numerous conditions, and no assurance can be given that such conditions will be satisfied. Among other things, the parties are still exploring various options for the timing, financing and ownership of the two units.

Code of Conduct – In accordance with the requirements of the 1998 Arizona Electric Power Competition Act, the District developed and implemented a Code of Conduct. The underlying principles of the Code are to protect the public interest and provide all competitors a fair opportunity to compete in the electric generation and other competitive services markets. Effective January 1, 2001, the District amended the Code to more closely isolate the distribution functions and services provided by the District and to simplify the Code.

The District is subject to an annual independent audit of adherence to the Code. The audit covering calendar year 2001 was completed in February 2002. The audit report confirmed the District has complied in all material respects with the Code's requirements.

COMBINED BALANCE SHEETS

As of April 30 (Thousands)

ASSETS	2002	2001
Utility Plant		
Plant in service —		
Electric	\$ 6,652,164	\$ 5,948,320
Irrigation	246,974	234,392
Common	385,897	391,698
Total plant in service	7,285,035	6,574,410
Less — Accumulated depreciation on plant in service	(3,313,051)	(3,102,243)
	3,971,984	3,472,167
Plant held for future use	31,144	31,134
Construction work in progress	482,568	326,215
Nuclear fuel, net	42,966	37,044
	4,528,662	3,866,560
Other Property and Investments		
Non-utility property and other investments	110,166	87,573
Segregated funds, net of current portion	368,296	352,302
	478,462	439,875
Current Assets		
Cash and cash equivalents	594,523	636,954
Temporary investments	185,463	348,031
Current portion of segregated funds	81,044	72,312
Receivables, net of allowance for doubtful accounts	140,843	348,307
Fuel stocks	35,612	25,480
Materials and supplies	70,063	60,500
Other current assets	14,964	39,519
	1,122,512	1,531,103
Deferred Charges and Other Assets	458,291	516,410
	\$ 6,587,927	\$ 6,353,948

The accompanying notes are an integral part of these combined financial statements.

COMBINED BALANCE SHEETS

As of April 30 (Thousands)

CAPITALIZATION AND LIABILITIES	2002	2001
Long-Term Debt	\$ 3,033,931	\$ 3,098,273
Accumulated Net Revenues and Other Comprehensive Income	2,330,268	2,312,014
Total Capitalization	5,364,199	5,410,287
Current Liabilities		
Current portion of long-term debt	114,340	71,940
Accounts payable	121,727	207,129
Accrued taxes and tax equivalents	57,821	31,551
Accrued interest	40,981	52,279
Customers' deposits	26,645	23,336
Other current liabilities	117,706	111,355
	479,220	497,590
Deferred Credits and Other Non-Current Liabilities	744,508	446,071
Commitments and Contingencies (Notes 5, 7, 8, 9, 10, 11 and 12)		
	\$ 6,587,927	\$ 6,353,948

The accompanying notes are an integral part of these combined financial statements.

COMBINED STATEMENTS OF NET REVENUES & COMPREHENSIVE INCOME

(Thousands)

For the years ended April 30	2002	2001
Operating Revenues	\$ 2,214,378	\$ 3,026,787
Operating Expenses		
Power purchased	713,797	914,646
Fuel used in electric generation	420,070	514,049
Other operating expenses	338,176	471,670
Maintenance	139,908	156,002
Depreciation and amortization	411,915	473,334
Taxes and tax equivalents	86,255	82,335
Total operating expenses	2,110,121	2,612,036
Net operating revenues	104,257	414,751
Other Income (Expenses)		
Interest income	55,801	68,147
Other expenses, net	(3,497)	(2,662)
Total other income (expenses), net	52,304	65,485
Net revenues before financing costs	156,561	480,236
Financing Costs		
Interest on bonds	137,544	148,110
Amortization of bond discount/premium and issuance expenses	1,732	4,951
Interest on other obligations	23,721	24,011
Capitalized interest	(14,398)	(6,532)
Net financing costs	148,599	170,540
Net Revenues Before Cumulative Effect of Change in Accounting Principle	7,962	309,696
Cumulative Effect of Change in Accounting Principle	11,834	-
Net Revenues	19,796	309,696
Other Comprehensive Income		
Net unrealized loss on securities and derivative instruments	(1,542)	(36,575)
Comprehensive Income	\$ 18,254	\$ 273,121

The accompanying notes are an integral part of these combined financial statements.

COMBINED STATEMENTS OF CASH FLOWS

(Thousands)

<i>For the years ended April 30</i>	2002	2001
Cash Flows from Operating Activities		
Net revenues	\$ 19,796	\$ 309,696
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation and amortization	411,915	473,334
Post-retirement benefits expense	27,900	23,800
Amortization of provision for loss on long-term contracts	(13,281)	(13,281)
Amortization of net bond discount/premium and issuance expenses	1,732	4,951
Amortization of spent nuclear fuel storage	1,446	1,333
Cumulative effect of change in accounting principle	11,834	-
Decrease (increase) in —		
Fuel stocks and materials & supplies	(19,695)	4,299
Receivables, including unbilled revenues, net	207,464	(167,937)
Other assets	(96,188)	(11,620)
Increase (decrease) in —		
Accounts payable	(85,402)	94,702
Accrued taxes and tax equivalents	26,270	(1,221)
Accrued interest	(11,298)	(750)
Other liabilities, net	105,286	70,861
Net cash provided by operating activities	587,779	788,167
Cash Flows from Investing Activities		
Additions to utility plant, net	(643,564)	(372,863)
Decrease in investments	141,568	228,138
Net cash used for investing activities	(501,996)	(144,725)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	1,013,150	-
Repayment of long-term debt, including refundings	(1,097,470)	(73,859)
Payment of capital lease obligation	(15,371)	-
Increase in segregated funds	(28,523)	(21,564)
Net cash used for financing activities	(128,214)	(95,423)
Net Increase (Decrease) in Cash and Cash Equivalents	(42,431)	548,019
Balance at Beginning of Year in Cash and Cash Equivalents	636,954	88,935
Balance at End of Year in Cash and Cash Equivalents	\$ 594,523	\$ 636,954
Supplemental Information		
Cash Paid for Interest (Net of capitalized interest)	\$ 158,165	\$ 166,339
Noncash Financing Activities		
Utility plant acquired under capital lease	\$ 292,068	-
Loss on defeasance	\$ 60,646	-

The accompanying notes are an integral part of these combined financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

April 30, 2002 and 2001

1. Basis of Presentation:

The Company – The Salt River Project Agricultural Improvement and Power District (the District) is an agricultural improvement district organized in 1937 under the laws of the State of Arizona. It operates the Salt River Project (the Project), a federal reclamation project, under contracts with the Salt River Valley Water Users' Association (the Association) by which it has assumed the obligations of the Association to the United States of America for the care, operation and maintenance of the Project. The District owns and operates an electric system that generates, purchases and distributes electric power and energy, and provides electric service to residential, commercial, industrial and agricultural power users in a 2,900 square mile service territory in parts of Maricopa, Gila and Pinal counties, plus mine loads in an adjacent 2,400 square mile area in Gila and Pinal counties. The Association, incorporated under the laws of the Territory of Arizona in 1903, operates an irrigation system as the District's agent.

In 1997, the District established a wholly-owned, taxable subsidiary, New West Energy Corporation (New West Energy), to market, at retail, energy available to the District that is surplus to the needs of its retail customers, and energy that may be rendered surplus by retail competition in Arizona in the supply of generation. In addition, New West Energy provides other retail energy-related services to current and prospective energy customers as part of its program to market surplus energy. However, as a result of the turmoil in the California energy market, the District has reassessed the business plan of New West Energy. At the current time, New West Energy does not market excess energy. It continues to provide energy-related services to various customers, and monitor the market situation in the Southwest in contemplation of future activity.

Possession and Use of Utility Plant – The United States of America retains a paramount right or claim in the Project that arises from the original construction and operation of certain of the Project's electric and water facilities as a federal reclamation project. Rights to the possession and use of, and to all revenues produced by, these facilities are evidenced by contractual arrangements with the United States of America.

Principles of Combination – The accompanying combined financial statements reflect the combined accounts of the Association and the District (together referred to as SRP). The District's financial statements are consolidated with its two wholly-owned taxable subsidiaries, New West Energy and Papago Park Center, Inc. (PPC). PPC is a real estate management company. All material intercompany transactions and balances have been eliminated.

Regulation and Pricing Policies – Under Arizona law, the District's publicly elected Board of Directors (the Board) serves as its regulatory body and has the exclusive authority to establish electric prices. The District is required to follow certain procedures, including public notice requirements and special Board meetings, before implementing changes in standard electric price schedules.

2. Significant Accounting Policies:

Basis of Accounting – The accompanying combined financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and reflect the pricing policies of the Board. The District's "regulated" operations apply Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), while "non-regulated" operations follow GAAP for enterprises in general. Classification of regulated and non-regulated operations is determined in accordance with applicable GAAP accounting guidelines.

NOTES TO COMBINED FINANCIAL STATEMENTS

April 30, 2002 and 2001

The preparation of financial statements in compliance with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingencies. Actual results could differ from the estimates.

Utility Plant – Utility plant is stated at the historical cost of construction, less any impairment losses. Capitalized construction costs include labor, materials, services purchased under contract, and allocations of indirect charges for engineering, supervision, transportation and administrative expenses and capitalized interest or an allowance for funds used during construction (AFUDC). AFUDC is the estimated cost of funds used to finance regulated plant additions and is recovered in prices through depreciation expense over the useful life of the related asset. The cost of property that is replaced, removed or abandoned, together with removal costs, less salvage, is charged to accumulated depreciation.

A composite rate of 5.45% and 5.54% was used in fiscal years 2002 and 2001 to calculate interest on funds used to finance construction work in progress for non-regulated projects, resulting in \$14.4 million and \$6.5 million of interest capitalized, respectively.

Depreciation expense is computed on the straight-line basis over the estimated useful lives of the various classes of plant assets. The following table reflects the District's average depreciation rates on the average cost of depreciable assets, for the fiscal years ended April 30:

	2002	2001
Average electric depreciation rate	3.92%	3.58%
Average irrigation depreciation rate	2.88%	2.20%
Average common depreciation rate	6.41%	5.84%

Bond Expense – Bond discount/premium and issuance expenses are being amortized using the effective interest method over the terms of the related bond issues.

Allowance for Doubtful Accounts – The District has provided for an allowance for doubtful accounts of \$67.5 million and \$76.4 million as of April 30, 2002 and 2001, respectively.

Nuclear Fuel – The District amortizes the cost of nuclear fuel using the units of production method. The nuclear fuel amortization and the disposal expense are components of fuel expense. Accumulated amortization of nuclear fuel at April 30, 2002 and 2001, was \$318.4 million and \$301.0 million, respectively.

Nuclear Decommissioning – The total cost to decommission the District's 17.49% share of Palo Verde Nuclear Generating Station (PVNGS) is estimated to be \$344.9 million, in 2001 dollars. This estimate is based on a site-specific study prepared by an independent consultant, assuming the prompt removal/dismantlement method of decommissioning authorized by the Nuclear Regulatory Commission (NRC). This study is updated as required, every three years, and was last updated in the fall of 2001. Based on the 2001 site study, the District estimates its share of ultimate decommissioning expenditures will be \$1.8 billion. Current decommissioning funding levels assume earnings on the decommissioning funds of 7.65%, as well as a future annual escalation rate of 5.92% in decommissioning costs. The actual decommissioning costs may vary from the estimate. Expenditures for decommissioning activities are anticipated over a fourteen-year period beginning in 2024. Estimated decommissioning costs are accrued over the estimated useful life of PVNGS. The liability associated with

NOTES TO COMBINED FINANCIAL STATEMENTS

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decommissioning is included in deferred credits and other non-current liabilities in the accompanying Combined Balance Sheets and amounted to \$93.5 million and \$84.9 million as of April 30, 2002 and 2001, respectively. Decommissioning expense, net of earnings on trust fund assets, of \$3.6 million and \$4.3 million was recorded in fiscal years 2002 and 2001, respectively. The District contributes to a trust set up in accordance with the NRC requirements. Decommissioning funds of \$121.4 million and \$113.5 million, stated at market value, as of April 30, 2002 and 2001, respectively, are held in the trust and are classified as segregated funds in the accompanying Combined Balance Sheets. Unrealized gains on decommissioning fund assets of \$28.2 million and \$30.2 million at April 30, 2002 and 2001, respectively, are included in accumulated comprehensive income as a component of accumulated net revenues.

Accounting for Energy Risk Management Activities – The District has an energy risk management program to limit exposure to risks inherent in normal energy business operations. The goal of the energy risk management program is to measure and minimize exposure to price risks, credit risks and control risks. Specific goals of the energy risk management program include reducing the impact of market fluctuations on energy commodity prices associated with customer energy requirements, excess generation and fuel expenses, in addition to meeting customer pricing needs, and maximizing the value of physical generating assets. The District employs established policies and procedures to meet the goals of the energy risk management program using various physical and financial instruments, including forward contracts, futures, swaps and options. Certain of these transactions are accounted for under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS No. 133). Under SFAS No. 133, derivative instruments are recorded in the balance sheet as either an asset or liability measured at their fair value. The standard also requires changes in the fair value of the derivative be recognized each period in current earnings or other comprehensive income depending on the purpose for using the derivative and/or its qualification, designation and effectiveness as a hedging transaction. Most of the District's contractual agreements qualify for the normal purchases and sales exception allowed under SFAS No. 133 and are not recorded at market value. For a detailed explanation of the effects of SFAS No. 133 on the District's financial results, see Note 3, Accounting for Derivative Instruments and Hedging Activities.

Concentrations of Market and Credit Risk – Market risk is the risk that changes in market prices or customer demand will adversely affect earnings and cash flows. Industry movements towards competition in electric generation subject the District to market risk associated with energy commodities such as electric power and natural gas. Recovery of costs to produce electricity in a non-regulated environment will be affected by changes in competitive market prices for both production resources and the market price of energy sales to ultimate customers.

The use of contractual arrangements to manage the risks associated with changes in energy commodity prices creates credit risk exposure resulting from the possibility of nonperformance by counterparties pursuant to the terms of their contractual obligations. In addition, volatile energy prices can create significant credit exposure from energy market receivables. The District has a credit policy for wholesale counterparties, and continuously monitors credit exposures, routinely assesses the financial strength of its counterparties, minimizes credit risk by dealing primarily with creditworthy counterparties, entering into standardized agreements which allow netting of exposures to and from a single counterparty and by requiring letters of credit, parent guarantees or other collateral when it does not consider the financial strength of a counterparty sufficient.

Income Taxes – The District is exempt from federal and Arizona state income taxes. Accordingly, no provision for income taxes has been recorded for the District in the accompanying combined financial statements.

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New West Energy recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in its financial statements or tax returns. Deferred tax liabilities and assets are determined based on differences between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Since its inception in May 1997, the tax effect of New West Energy's results of operations has been immaterial.

Cash Equivalents – The District treats short-term temporary cash investments with original maturities of three months or less as cash equivalents.

Revenue Recognition – The District recognizes revenue when billed and accrues estimated revenue for electricity delivered to customers that has not yet been billed.

Materials and Supplies, and Fuel Stocks – Materials and supplies are stated at lower of market or average cost. Fuel stocks are stated at lower of market or cost using the last-in, first-out method.

Reclassifications – For comparative purposes, certain prior year amounts have been reclassified to conform with the current year presentation.

Recently Issued Accounting Standards – During fiscal year 2002, the Financial Accounting Standards Board (FASB) issued SFAS Nos. 141-145:

SFAS No. 141, "*Business Combinations*," requires all business combinations initiated after June 30, 2001 be accounted for using the purchase method. The District evaluated the effect of SFAS No. 141 and determined there were no financial impacts related to its adoption by the District.

SFAS No. 142, "*Goodwill and Other Intangible Assets*," modifies the accounting and reporting of goodwill and other intangible assets. Under SFAS No. 142, entities are required to determine the useful life of intangible assets and amortize them over that period; if the useful life is determined to be indefinite, no amortization is to be recorded. For intangible assets recognized prior to the adoption of SFAS No. 142, the useful life is to be reassessed. The District evaluated the impact of SFAS No. 142 and determined there were no financial impacts related to its adoption by the District.

SFAS No. 143, "*Accounting for Asset Retirement Obligations*," requires the recognition, as an Asset Retirement Obligation (ARO), of a liability for dismantlement and restoration costs associated with the retirement of tangible long-lived assets in the period the liability is incurred. Upon initial recognition, the probability-weighted future cash flows for the associated retirement costs, discounted using a credit-adjusted risk-free rate, are recognized as both a liability and as an increase in the capitalized carrying amount of the related long-lived assets. Capitalized asset retirement costs are depreciated over the life of the related asset, with accretion of the ARO liability classified as an operating expense on the income statement. SFAS No. 143 must be applied by the District at the beginning of fiscal year 2004. The District is evaluating the impact of SFAS No. 143 on the combined financial statements.

SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*," supercedes SFAS No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*." SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for the measurement and recognition of the impairment of

NOTES TO COMBINED FINANCIAL STATEMENTS

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long-lived assets to be held and used, as well as the measurement of long-lived assets to be disposed of by sale. SFAS No. 144 resolves significant implementation issues related to SFAS No. 121, broadens the component of an entity to be included in the presentation for discontinued operations, and measures long-lived assets held for sale at the lower of their carrying amount or fair value (less cost to sell), while ceasing depreciation. SFAS No. 144 also retains the amendments in SFAS No. 121 pertaining to regulatory assets under SFAS No. 71 and SFAS No. 90, *"Regulated Enterprises – Accounting for Abandonments and Disallowances of Plant Costs."* The adoption of SFAS No. 144 did not have a significant impact on the combined financial statements.

SFAS No. 145, *"Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections,"* rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, *"Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,"* have been met. SFAS No. 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after May 15, 2002. Management does not believe that the adoption of this statement will have a material impact on SRP's combined financial statements.

3. Accounting for Derivative Instruments and Hedging Activities:

Effective May 1, 2001, the District adopted SFAS No. 133 as amended. SFAS No. 133 requires that entities recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in net revenues or accumulated net revenues (as a component of other comprehensive income), depending on whether or not the derivative meets specific hedge accounting criteria. These criteria include a requirement for hedge effectiveness, which is measured based on the relative changes in fair value between the derivative contract and the hedged item over time. Any change in the fair value resulting from ineffectiveness is recognized immediately in net revenues. This new standard may result in additional volatility in the District's net revenues and comprehensive income.

The District enters into contracts for electricity, natural gas and other energy commodities to meet the expected needs of its retail customers. During periods when it is not needed to meet retail requirements, the District sells any excess capacity. The District's energy risk management program uses various physical and financial contracts to hedge exposures to fluctuating commodity prices. The District examines contracts at inception to determine the appropriate accounting treatment. If a contract does not meet the derivative criteria or if it qualifies for the SFAS No. 133 normal purchases and sales scope exception, the District accounts for the contract using settlement accounting (this means that costs and revenues are recorded when physical delivery occurs). For contracts that qualify as a derivative and do not meet the SFAS No. 133 normal purchases and sales scope exception, the District further examines the contract to determine if it will qualify for hedge accounting. If a contract does not meet the hedging criteria in SFAS No. 133, the District recognizes the changes in the fair value of the derivative instrument in net revenues each period (mark-to-market). If the contract does qualify for hedge accounting, changes in the fair value are recorded in accumulated net revenues and other comprehensive income (as a component of other comprehensive income).

The District formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to the forecasted transactions. The District also formally assesses (both at the hedge's inception

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and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the District discontinues hedge accounting prospectively, as discussed below.

The District discontinues hedge accounting prospectively when: (1) it determines that the derivative is no longer effective in offsetting changes in cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the District discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative is reclassified into earnings. If the derivative remains outstanding, the District will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current-period earnings.

Initial Adoption – Upon adoption of SFAS No. 133, the District examined all contracts to determine the appropriate accounting treatment and concluded that some of the contracts entered into for supply and energy risk management activities were considered to be derivatives based on the accounting guidance at that time. The District's supply and energy risk management activities include the following types of contracts:

- Long-term contracts – purchases and sales of firm capacity and energy for periods of more than one year under unique contracts.
- Forward contracts – purchases and sales of a specified amount of capacity, energy or fuel at a specified price over a given period of time, typically for one month, three months or one year, under standard industry contracts.
- Futures contracts – similar to forward contracts with standardized terms and typically traded on an exchange. The District has a passively managed futures contract portfolio in which contracts are entered into and held to delivery, and an actively managed futures contracts portfolio in which contracts are purchased and sold to take advantage of positive market changes.
- Option contracts – purchases and sales of financial instruments that provide the right to buy or sell energy commodities.
- Swap contracts – financial contracts to exchange cash flows based on agreed-upon parameters and price fluctuations in an energy-related commodity.
- Short-term contracts – economy energy purchases and sales in the daily or hourly markets at fluctuating spot market prices and other non-firm energy sales.

NOTES TO COMBINED FINANCIAL STATEMENTS

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Based on the District's interpretation of SFAS No. 133 and other guidance, the District classified its energy risk management contracts as follows:

<i>Contract Type</i>	<i>Normal Purchases and Sales</i>	<i>Cash Flow Hedge</i>	<i>Non-Qualifying Hedging Contracts</i>
Energy Risk Management Contracts:			
Long-term supply contracts	X		
Forward contracts	X		X
Futures contracts – passively managed		X	
Futures contracts – actively managed			X
Option contracts			X
Swap contracts			X
Short-term contracts			X

The accounting treatments for the various classifications are as follows:

- **Normal Purchases and Sales:** The contracts that qualify for the normal purchases and sales scope exception under SFAS No. 133 are accounted for using settlement accounting. The realized gains and losses on these contracts are reflected in net revenues as a component of net operating revenues at the contract settlement date.
- **Cash Flow Hedge:** The unrealized gains and losses related to these contracts are included in accumulated net revenues and other comprehensive income (as a component of other comprehensive income). As the contracts are settled, the realized gains and losses are recorded in net revenues as a component of net operating revenues and the unrealized gains and losses are reversed from other comprehensive income.
- **Non-qualifying Hedging Contracts:** These contracts hedge the risk of future commodity price fluctuations the District faces. However, they do not meet the requirements of SFAS No. 133 for hedge accounting. The unrealized gains and losses related to the contracts are reflected in net revenues as a component of net operating revenues.

As a result of adopting SFAS No. 133 and guidance issued by the FASB's Derivative Implementation Group (DIG) effective during fiscal year 2002, the District recognized \$98.1 million of derivative assets and \$80.5 million of derivative liabilities in the Combined Balance Sheets as of May 1, 2001. Also as of May 1, 2001, the District recorded an \$11.8 million gain in net revenues and a \$5.8 million gain in accumulated net revenues and other comprehensive income (as a component of other comprehensive income), both as a cumulative effect of a change in accounting principle.

As of April 30, 2002, the valuation of market changes for the District's energy risk management contracts resulted in a decrease in electric revenues of \$11.6 million and an increase in fuel expenses of \$44.4 million. The impact to net revenues for fiscal year 2002 was an unrealized loss of \$44.2 million. Without the effect of market changes, the net revenues for the period would have been \$64.0 million. Accumulated net revenues and other comprehensive income (as a component of other comprehensive income), was increased by \$2.3 million due to unrealized cash flow hedge gains as of April 30, 2002. Most of this impact relates to a multi-year hedge on transportation costs from two major gas basins in the Southwest for natural gas used for retail generation.

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The following table summarizes the District's net revenues and balance sheet impact from market valuation of contracts as of April 30, 2002 (in thousands):

Net Revenues	
Operating Revenues before effects of SFAS No. 133	\$ 2,225,985
Operating Expenses, Other Income and Net Financing Costs before effects of SFAS No. 133	2,161,990
Net Revenues before effects of SFAS No. 133	63,995
Cumulative Effect of Change in Accounting Principle at May 1, 2001 on:	
Revenues – gain	10,502
Expenses – gain	(1,332)
Effects of SFAS No. 133 at April 30, 2002, on:	
Revenues – loss	(11,606)
Expenses – loss	44,427
Net Revenues	\$ 19,796
Balance Sheet	
Other Current Assets	\$ 3,383
Deferred Charges and Other Assets	12,514
Other Current Liabilities	(18,552)
Deferred Credits and Other Non-Current Liabilities	(39,289)
Net Asset (Liability)	\$ (41,944)

As of April 30, 2002, the maximum length of time over which the District hedged its exposure to the variability in future cash flows for forecasted transactions was eighteen months. During the twelve months ending April 30, 2003, the District estimates that a net gain of \$0.3 million will be reclassified from accumulated other comprehensive income as an offset to the effect on earnings of market price changes for the related hedged transactions.

In December 2001, the DIG issued revised guidance on the accounting for electricity contracts with option characteristics and the accounting for contracts that combine a forward contract and a purchased option contract. The effective date for the revised guidance for the District is May 1, 2002. The District is currently evaluating the new guidance to determine what impact, if any, it will have on the District's financial statements.

To date, the DIG has issued more than 100 interpretations to provide guidance in applying SFAS No. 133. As the DIG or the FASB continues to issue interpretations, the District may change the conclusions reached and, as a result, the accounting treatment and the impact on the combined financial statements could change in the future.

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April 30, 2002 and 2001

4. Accumulated Net Revenues and Other Comprehensive Income:

The following table summarizes accumulated net revenues and other comprehensive income (in thousands):

	<i>Accumulated Net Revenues</i>	<i>Accumulated Other Comprehensive Income</i>	<i>Accumulated Net Revenues and Other Comprehensive Income</i>
Balance, April 30, 2000	\$ 1,936,095	\$ 102,798	\$ 2,038,893
Net revenues	309,696	-	309,696
Net unrealized loss on available-for-sale securities	-	(36,575)	(36,575)
Balance, April 30, 2001	2,245,791	66,223	2,312,014
Net revenues	19,796	-	19,796
Cumulative effect of change in accounting principle	-	5,765	5,765
Unrealized gain on derivative instruments	-	2,255	2,255
Reclassification of realized loss to income	-	(5,765)	(5,765)
Net unrealized loss on available-for-sale securities	-	(3,797)	(3,797)
Balance, April 30, 2002	\$ 2,265,587	\$ 64,681	\$ 2,330,268

The majority of net unrealized loss on available-for-sale securities originates from decommissioning trust and segregated fund investments. Net unrealized gain (loss) on available-for-sale securities consists of gross unrealized (loss) on equity funds of \$(2.0) million and \$(41.1) million and gross unrealized gain (loss) on debt funds of \$(1.8) million and \$4.5 million at April 30, 2002 and 2001, respectively.

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5. Long-Term Debt:

Long-term debt consists of the following at April 30 (in thousands):

	Interest Rate	2002	2001
Revenue bonds (mature through 2031)	3.0% – 7.0%	\$ 2,613,259	\$ 2,713,999
Unamortized bond discount/premium		10,012	(68,786)
Total revenue bonds outstanding		2,623,271	2,645,213
Commercial paper	1.2% – 1.7%	525,000	525,000
Total long-term debt		3,148,271	3,170,213
Less — current portion		(114,340)	(71,940)
Total long-term debt, net of current portion		\$ 3,033,931	\$ 3,098,273

The annual maturities of long-term debt (excluding commercial paper and unamortized bond discount/premium) as of April 30, 2002, due in the fiscal years ending April 30, are as follows (in thousands):

2003	\$ 114,340
2004	264,291
2005	215,616
2006	323,727
2007	79,995
Thereafter	1,615,290
	\$ 2,613,259

Revenue Bonds – Revenue bonds are secured by a pledge of, and a lien on, the revenues of the electric system, after deducting operating expenses, as defined in the bond resolution. Under the terms of the bond resolution, the District is required to maintain a debt service fund for the payment of future principal and interest. Included in segregated funds in the accompanying Combined Balance Sheets is \$149.1 million and \$283.7 million of debt service related funds as of April 30, 2002 and 2001, respectively.

The District has \$80.2 million of mini-revenue bonds outstanding and redeemable at the option of the bondholder under certain circumstances. Based on historical redemptions made on these bonds, management believes there are sufficient funds available to cover potential redemptions in any year.

The debt service coverage ratio, as defined in the bond resolution, is used by bond rating agencies to help evaluate the financial viability of the District. For the years ended April 30, 2002 and 2001, the debt service coverage ratio was 3.09 and 4.72, respectively.

Interest and the amortization of the bond discount and issue expense on the various issues results in an effective rate of 5.38% over the remaining term of the bonds.

The District has authorization to issue additional Electric System Revenue Bonds totaling \$1.2 billion principal amount and Electric System Refunding Revenue Bonds totaling \$2.7 billion principal amount, net of amounts issued in current year. These amounts include \$675.0 million in Electric System Revenue Bonds and \$750.0 million in Electric System Refunding Revenue Bonds authorized by the Arizona Corporation Commission on December 4, 2001, pursuant to applications filed earlier that year.

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In December 2001, the District issued \$580.6 million of Electric System Refunding Revenue Bonds. The net proceeds from these bonds were used to defease outstanding bonds with par amounts of \$605.1 million. The defeasance is expected to reduce total debt payments over the life of the bonds by \$426.2 million and is expected to result in present value savings of approximately \$30.2 million. This transaction resulted in a net loss for accounting purposes of \$34.6 million, which was deferred and will be amortized over the life of the bonds to be refunded, as authorized by the Board.

In February 2002, the District issued \$432.6 million of Electric System Refunding Revenue Bonds. The net proceeds from these bonds were used to defease outstanding bonds with par amounts of \$437.4 million. The defeasance is expected to reduce total debt payments over the life of the bonds by \$21.4 million and is expected to result in present value savings of approximately \$29.6 million. This transaction resulted in a net loss for accounting purposes of \$26.1 million, which was deferred and will be amortized over the life of the bonds to be refunded, as authorized by the Board.

Commercial Paper – The District has issued \$525.0 million of tax-exempt commercial paper consisting of \$375.0 million Series B Issue and \$150.0 million Series A Issue, initiated in fiscal year 1998. The issues have an average weighted interest rate to the District of 1.47%. The commercial paper matures not more than 270 days from the date of issuance and is an unsecured obligation of the District. The District has the ability to refinance the outstanding commercial paper on a long-term basis in connection with its revolving lines of credit that support the commercial paper and are available through May 6, 2003. As such, the District has classified the commercial paper as long-term debt in the Combined Balance Sheets as of April 30, 2002.

While the revolving credit agreements contain covenants that could prohibit borrowing under certain conditions, management believes financing would be available. The District has never borrowed under the two agreements and management does not expect to do so in the future. Alternative sources of funds to support the commercial paper program include existing funds on hand or the issuance of alternative debt, such as revenue bonds.

General Obligation Bonds – In 1984, the District refunded its then-outstanding general obligation bonds. Although the refunding constituted an in-substance defeasance of the prior lien on revenues securing the bonds, the general obligation bonds continue to be general obligations of the District, secured by a lien upon the real property of the District and a guarantee by the Association. As of April 30, 2002, the amount of defeased general obligation bonds outstanding was \$2.5 million.

Line-of-Credit Arrangements – The District has \$525.0 million in revolving line-of-credit agreements supporting the commercial paper program. These agreements have various covenants, with which the District is in compliance at April 30, 2002.

6. Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments identified in the following items in the accompanying Combined Balance Sheets.

Investments in Marketable Securities – The District invests in U.S. government obligations, certificates of deposit and other marketable investments. Such investments are classified as other investments, segregated funds, cash and cash equivalents, or temporary investments in the accompanying Combined Balance Sheets, depending on the purpose and duration of the investment. The fair value of marketable securities with original maturities greater

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than one year is based on published market data. The carrying amount of marketable securities with original maturities of one year or less approximates their fair value because of their short-term maturities.

Long-Term Debt – The fair value of the District's revenue bonds, including the current portion, was estimated by using pricing scales from independent sources. The carrying amount of commercial paper approximates the fair value because of its short-term maturity.

Other Current Assets and Liabilities – The carrying amounts of receivables, accounts payable, customers' deposits and other current liabilities in the accompanying Combined Balance Sheets approximate fair value because of their short-term maturities.

The estimated carrying amounts and fair values of the District's financial instruments, at April 30, are as follows (in thousands):

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments in marketable securities:				
Other investments	\$ 34,000	\$ 34,579	\$ 13,000	\$ 13,117
Segregated funds	449,340	451,144	424,614	422,788
Temporary investments	185,463	186,294	348,031	348,060
Long-term debt	3,148,271	3,245,100	3,170,213	3,294,173

Accounting for Debt and Equity Securities – The District's investments in debt securities are reported at amortized cost if the intent is to hold the security to maturity. At April 30, 2002, the District's investments in debt securities have maturity dates ranging from May 3, 2002, to February 28, 2012. Other debt and equity securities are reported at market, with unrealized gains or losses included as a separate component of Accumulated Net Revenues and Other Comprehensive Income. The District's investments in debt and equity securities are included in temporary investments, segregated funds and non-utility property and other investments in the accompanying Combined Balance Sheets.

7. Employee Benefit Plans and Incentive Programs:

Defined Benefit Pension Plan and Other Post-Retirement Benefits – SRP's Employees' Retirement Plan (the Plan) covers substantially all employees. The Plan is funded entirely from SRP contributions and the income earned on invested Plan assets. No contributions were required in fiscal years 2002 or 2001.

The Plan assets consist primarily of stocks, U.S. government obligations, corporate bonds and real estate funds. The unrecognized net transition asset is being amortized over 15 years, beginning in 1988.

SRP provides a non-contributory defined benefit medical plan for retired employees and their eligible dependents and a non-contributory defined benefit life insurance plan for retired employees. Employees are eligible for coverage if they retire at age 65 or older with at least five years of vested service under the Plan (ten years for those hired January 1, 2000, or later), or anytime after attainment of age 55 with a minimum of ten years of vested service under the Plan (20 years for those hired January 1, 2000, or later). The funding policy is discretionary

NOTES TO COMBINED FINANCIAL STATEMENTS

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and is based on actuarial determinations. The unrecognized transition obligation is being amortized over 20 years, beginning in 1994.

The following tables outline changes in benefit obligations, plan assets, the funded status of the plans and amounts included in the combined financial statements as of April 30, based on January 31 valuation dates (in thousands):

	<i>Pension Benefits</i>		<i>Other Benefits</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
Change in benefits obligation:				
Benefit obligation at beginning of year	\$ 567,300	\$ 510,800	\$ 215,400	\$ 170,400
Service cost	17,000	14,300	5,600	4,400
Interest cost	41,600	40,100	15,800	13,400
Amendments	-	8,400	-	-
Actuarial loss	48,600	17,700	52,100	34,200
Benefits paid	(29,800)	(24,000)	(9,000)	(7,000)
Benefit obligations at end of year	\$ 644,700	\$ 567,300	\$ 279,900	\$ 215,400
Change in plan assets:				
Fair value of plan assets				
at beginning of year	\$ 705,100	\$ 699,100	\$ -	\$ -
Actual return on plan assets	(35,700)	30,000	-	-
Employer contributions	-	-	9,000	7,000
Benefits paid	(29,800)	(24,000)	(9,000)	(7,000)
Fair value of plan assets at end of year	\$ 639,600	\$ 705,100	\$ -	\$ -
Funded status	\$ (5,000)	\$ 137,800	\$ (279,900)	\$ (215,400)
Unrecognized transition obligation (asset)	-	(4,000)	62,300	67,900
Unrecognized net actuarial (gain) loss	37,000	(111,000)	83,500	32,500
Unrecognized prior service cost	8,700	9,900	-	-
Post January 31 contributions	-	-	3,000	1,800
Net asset (liability) recognized	\$ 40,700	\$ 32,700	\$ (131,100)	\$ (113,200)
Prepaid benefit cost	\$ 40,700	\$ 32,700	\$ -	\$ -
Accrued benefit liability	-	-	(131,100)	(113,200)
Net amount recognized	\$ 40,700	\$ 32,700	\$ (131,100)	\$ (113,200)

The Plan was amended to provide a retiree pension enhancement, effective January 1, 2001, and to provide enhanced benefits for selected employees effective September 19, 2000.

NOTES TO COMBINED FINANCIAL STATEMENTS

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The District internally funds its other post-retirement benefit obligations. At April 30, 2002 and 2001, \$163.9 million and \$148.0 million of segregated funds, respectively, were designated for this purpose.

Weighted average assumptions used to calculate actuarial present values of benefit obligations were as follows:

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Discount rate	7.25%	7.5%	7.25%	7.5%
Expected return on plan assets	8.75%	9.0%	N/A	N/A
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%

For employees who retire at age 65 or younger, for measurement purposes, a 9.0% annual increase before attainment of age 65 and an 11.0% annual increase on and after attainment of age 65 in per capita costs of health care benefits were assumed during 2002; these rates were assumed to decrease uniformly until equaling 5.25% in all future years.

Components of net periodic benefit (gain) costs for the years ended April 30, are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Service cost	\$ 17,000	\$ 14,300	\$ 5,600	\$ 4,400
Interest cost	41,600	40,100	15,800	13,400
Expected return on plan assets	(61,300)	(59,100)	-	-
Amortization of transition obligation (asset)	(4,000)	(4,000)	5,700	5,700
Recognized net actuarial loss (gain)	(2,400)	(2,400)	800	300
Amortization of prior service cost	1,100	400	-	-
Net periodic benefit (gain) cost	\$ (8,000)	\$ (10,700)	\$ 27,900	\$ 23,800

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effect (in thousands):

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total service cost and interest cost components	\$ 2,600	\$ (2,400)
Effect on post-retirement benefit obligations	\$ 38,100	\$ (33,700)

Defined Contribution Plan – SRP's Employees' 401(k) Plan (the 401(k) Plan) covers substantially all employees. The 401(k) Plan receives employee contributions and partial employer matching contributions. Employer matching contributions to the 401(k) Plan were \$7.1 million and \$5.9 million during fiscal years 2002 and 2001, respectively.

NOTES TO COMBINED FINANCIAL STATEMENTS

April 30, 2002 and 2001

Employee Incentive Compensation Program – SRP has an incentive compensation program covering substantially all regular employees. The incentive compensation amount is based on achievement of pre-established targets. These targets were not met in fiscal year 2002. An accrual of \$28.2 million for fiscal year ended April 30, 2001, is included in other current liabilities in the accompanying Combined Balance Sheets. This liability is stated net of a receivable from participants in jointly-owned electric utility plants of \$3.3 million at April 30, 2001.

8. Interests in Jointly-Owned Electric Utility Plants:

The District has entered into various agreements with other electric utilities for the joint ownership of electric generating and transmission facilities. Each participating owner in these facilities must provide for the cost of its ownership share. The District's share of expenses of the jointly-owned plants is included in operating expenses in the accompanying Combined Statements of Net Revenues.

The following table reflects the District's ownership interest in jointly-owned electric utility plants as of April 30, 2002 (in thousands):

Generating Station	Ownership Share	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Four Corners (NM) (Units 4 & 5)	10.00%	\$ 102,564	\$ (83,510)	\$ 2,991
Mohave (NV) (Units 1 & 2)	20.00%	198,131	(86,905)	8,703
Navajo (AZ) (Units 1, 2 & 3)	21.70%	345,017	(203,704)	1,075
Hayden (CO) (Unit 2)	50.00%	110,939	(61,050)	1,902
Craig (CO) (Units 1 & 2)	29.00%	242,759	(148,518)	3,119
PVNGS (AZ) (Units 1, 2 & 3)	17.49%	1,103,240	(775,599)	36,107
		\$2,102,650	\$ (1,359,286)	\$ 53,897

The District acts as the operating agent for the participants in the Navajo Generating Station (NGS). On November 30, 2001, the District acquired half (10%) of the shares in the Mohave Generating Station held by the Los Angeles Department of Water and Power, thereby increasing the District's total share to 20%.

9. Capital Lease:

In fiscal year 2001, the District entered into a ten-year contract with Reliant Energy Desert Basin, LLC (Reliant) for the long-term exclusive purchase of power and energy produced at Reliant's facility located in Central Arizona. The amount of capacity available to the District is approximately 598 MW annually. The payments include costs for both capacity and operation and maintenance of the facility. Upon inception of the contract, the present value of the fixed payment attributable to capacity costs meets the requirement for accounting for this contract as a capital lease. Accordingly, in fiscal year 2002, the District recorded the present value of the capacity payments of \$292.1 million as utility plant and the related capital lease obligation in deferred credits and other non-current liabilities (long-term portion) and other current liabilities (short-term portion). At April 30, 2002, the utility plant under the capital lease was \$277.0 million, net of accumulated amortization of \$15.1 million and the capital lease obligation was \$276.7 million. The capacity payments required under the agreement total \$40.9 million annually through fiscal year 2007, and \$149.2 million thereafter. The operation and maintenance payments required under the agreement total \$21.5 million annually through fiscal year 2007, and \$78.5 million thereafter.

The District historically operated in a highly-regulated environment in which it had an obligation to deliver electric service to customers within its service area. In May 1998, the Arizona Electric Power Competition Act (the Act) authorized competition in the retail sale of electric generation, recovery of stranded costs and competition in billing, metering and meter reading.

The Act allows a temporary surcharge on electric distribution service prices to pay for all or a portion of unmitigated stranded costs of electric generation service incurred as a direct result of the onset of competition. Such costs must have been incurred to serve customers in Arizona before December 26, 1996. This surcharge may not continue past December 31, 2004, and must not cause prices to exceed the prices in effect on December 30, 1998.

The legislature, in May 2002, established a study committee to examine the status of deregulation and determine whether the Act should be modified. The study committee will be meeting over the summer of 2002. It is unclear at this point if changes to the Act will result.

In 1999, the Arizona Corporation Commission (the Commission), which regulates public service corporations, approved final rules for retail electric competition. The Commission subsequently entered into settlement agreements with each of its regulated utilities, establishing terms and conditions precedent to a framework for stranded cost recovery and unbundled tariffs. Beginning January 1, 2001, all customers were given the right to select an alternative generation provider. In recent months, due to California's unsuccessful experience with competition and other market developments, the Commission began a review of its existing competition rules to determine whether changes or additions were necessary to provide additional safeguards for consumers. The Commission is focusing its attention on such issues as asset transfers, affiliated interest rules and market power. The process is ongoing and the District is uncertain of the impact any changes to retail electric competition may have on its operations or financial condition.

The Federal Energy Regulatory Commission (FERC) regulates the electric utility industry under the authority of various statutes. FERC issued rules in 1996 mandating, among other things, open nondiscriminatory access to transmission lines. The rules require comparable transmission service in order to use the transmission systems of public utilities. The District has filed a comparable open access transmission tariff to ensure reciprocal access, pursuant to rules FERC developed for non-jurisdictional entities like the District. In addition, FERC issued its Order No. 2000 in December 1999, requiring all jurisdictional public utilities that own, operate or control interstate transmission to attempt to develop proposals for regional transmission organizations (RTO). The District is participating in the development of an RTO for the Southwest.

The service area of the District was opened to competition in generation beginning June 1, 2000, and to competition in billing, metering and meter reading beginning December 31, 2000. The District's electric distribution area remains regulated by its Board and the District will not provide distribution services in the distribution areas of other utilities.

The District's price plans have been unbundled since 1999. The District reviewed its price plans in November 2001 and approved, among other things, a Fuel and Purchase Power Adjustment Mechanism (Adjustment Mechanism) that became effective May 1, 2002. The Adjustment Mechanism provides for a prospective collection of amounts for fuel and purchased power costs above predetermined levels. Other changes to the District's price plans became effective December 31, 2001. The District prices its electric generation based upon market and cost of service factors.

NOTES TO COMBINED FINANCIAL STATEMENTS

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Since December 31, 1998, the District has been recovering stranded costs through a competitive transition charge (CTC) paid by all distribution customers. Effective June 2004, the District will stop collecting the CTC. In fiscal year 2001, management determined, based upon projections using current economic conditions, that the full CTC of \$795.0 million may not be collected. Management, therefore, reduced the amount of the CTC asset and took a charge to depreciation and amortization expense of \$85.0 million as of April 30, 2001. Further, as part of the November 2001 price plans review, the District reviewed the level of its CTC associated with stranded cost recovery and elected to retain the CTC at its current level until June 1, 2004.

Through a surcharge to the District's transmission and distribution customers, the District recovers the costs of programs benefiting the general public, such as discounted rates for the elderly or impoverished, efficiency programs, demand-side management measures, renewable energy programs, economic development, research and development and nuclear decommissioning, including the cost of spent fuel storage. These surcharges have been separately identified and included in the District's price plans for the regulated portion of its operations.

Regulatory Accounting – The District accounts for the financial effects of the regulated portion of its operations in accordance with the provisions of SFAS No. 71, which requires cost-based, rate-regulated utilities to reflect the impacts of regulatory decisions in their financial statements.

As a result of the Board actions in August 1998 to open the District's service area to competition in generation, the District discontinued the application of SFAS No. 71 for its electric generation operations in fiscal year 1999. From that time forward, the provisions of SFAS No. 101, *"Regulated Enterprises: Accounting for the Discontinuation of Application of FASB Statement No. 71,"* have been applied to the portion of its business no longer meeting the provisions of SFAS No. 71.

In fiscal year 1999, the District evaluated the carrying amounts of its generation operations in relation to future cash flows expected to be generated from their use in a competitive environment and determined that \$850.2 million of these assets were impaired. Impairment of \$631.8 million was attributable to generation operations, and \$163.7 million was attributable to long-term energy contracts. Of the total impairment, a maximum of \$795.0 million may be recovered through the CTC, and such amount was recorded as a regulatory asset (CTC regulatory asset). The CTC regulatory asset will be recovered through the competitive transition charge over the period beginning December 31, 1998, and continuing through May 31, 2004. Since December 31, 1998, the District has amortized or charged \$530.5 million of CTC asset to depreciation and amortization expense and recovered \$460.1 million through CTC revenue.

Regulatory assets for spent nuclear fuel storage are being amortized over the life of the nuclear plant. Bond defeasance regulatory assets are being amortized over different periods, beginning in fiscal year 1997 and ending in fiscal year 2031. Regulatory assets are included in deferred charges and other assets on the accompanying Combined Balance Sheets.

Deferred charges and other assets consist primarily of the following at April 30 (in thousands):

CTC regulatory asset	\$ 264,931	\$ 392,097
Bond defeasance regulatory asset	84,475	36,600
Spent nuclear fuel storage regulatory asset	22,209	21,974
Prepaid pension benefits	40,700	32,700
Other	45,976	33,039
	\$ 458,291	\$ 516,410

If events were to occur making full recovery of these regulatory assets no longer probable, the District would be required to write-off the remaining balance of such assets as a one-time charge to net revenues.

Deferred credits and other non-current liabilities consist primarily of the following at April 30 (in thousands):

Capital lease obligation	\$ 251,364	\$ -
Provision for contract losses	119,460	132,741
Accrued post-retirement benefit liability	131,100	113,200
Accrued decommissioning costs	93,532	84,946
Derivatives market valuation	39,289	-
Accrued spent nuclear fuel storage	25,657	24,915
Other	84,106	90,269
	\$ 744,508	\$ 446,071

Operating results from the separable portion of the District's operations not meeting the provisions of SFAS No. 71 are as follows (in thousands):

Operating revenues	\$ 1,459,451	\$ 2,277,240
Operating expenses	1,387,367	1,770,065
Net operating revenues from non-regulated operations	\$ 72,084	\$ 507,175

NOTES TO COMBINED FINANCIAL STATEMENTS

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Utility plant assets used in the separable portion of the District's operations no longer meeting the provisions of SFAS No. 71 are as follows at April 30 (in thousands):

	2002	2001
Electric plant in service	\$ 3,887,948	\$ 3,460,089
Less accumulated depreciation	(2,119,902)	(1,985,330)
Net utility plant assets used in non-regulated operations	\$ 1,768,046	\$ 1,474,759

11. Commitments:

Subsidiary Guarantees – The District acts as guarantor for New West Energy's contractual obligations as necessary to satisfy performance security requirements under agreements with utility distribution companies, brokers and counterparties for financial hedge transactions and power purchasers and sellers. No payments were made under these guarantees during fiscal years 2002 and 2001.

Improvement Program – The Improvement Program represents SRP's six-year plan for major construction projects and capital expenditures for existing generation, transmission, distribution and irrigation assets. For the 2003-2008 period, SRP estimates capital expenditures of approximately \$2.9 billion. Major construction projects include expansion of generation at the Santan Generating Station, as well as other key strategic distribution and transmission projects.

Long-Term Power Contracts – The District entered into three contracts, collectively, with the United States Bureau of Reclamation (United States), the Western Area Power Administration and the Central Arizona Water Conservation District (CAWCD) for the long-term sale, through September 2011 to the District, of power and energy associated with the United States' entitlement to NGS. The amount of energy available to the District varies annually and is expected to decline over the life of the contracts. The District pays a fixed amount under the contracts, pays the cost of NGS generation and other related costs, and supplies energy at cost to CAWCD for Central Arizona Project facilities. The fixed portion of the District's payment obligations under the three contracts totals \$47.0 million annually through fiscal year 2007, and \$207.4 million thereafter. Of the total obligation, \$25.2 million annually through fiscal year 2007 and \$111.3 million thereafter are unconditionally payable regardless of the availability of power. Payments under these contracts totaled \$74.6 million and \$76.5 million in fiscal years 2002 and 2001, respectively.

The District entered into two other long-term power purchase agreements to obtain a portion of its projected load requirements through 2011. Minimum payments under these contracts are \$38.9 million annually through fiscal year 2007 and \$150.0 million thereafter. Total payments under these two contracts, including the minimum payments, were \$61.7 million and \$62.9 million in fiscal years 2002 and 2001, respectively. In conjunction with the impairment analysis performed on generation-related operations, the District has recorded provisions for losses on these contracts. The provisions recorded in August 1998, of \$163.7 million, are being amortized over the life of the contracts, commencing January 1, 1999. Amortization of \$13.3 million has been reflected as a reduction in purchased power expense in fiscal years 2002 and 2001. The remaining liability at April 30, 2002, of \$119.5 million is included in deferred credits and other non-current liabilities in the Combined Balance Sheets.

Fuel Supply – At April 30, 2002, minimum payments under long-term coal supply contract commitments are estimated to be \$148.4 million in fiscal year 2003, \$153.4 million in fiscal year 2004, \$144.6 million in fiscal year 2005, \$118.3 million in fiscal year 2006, \$90.7 million in fiscal year 2007, and \$345.4 million thereafter.

April 30, 2002 and 2001

12. Contingencies

Under existing law, public liability claims arising from a single nuclear incident are limited to \$9.5 billion. PVNGS participants insure for this potential liability through commercial insurance carriers to the maximum amount available (\$200.0 million), with the balance covered by an industry-wide retrospective assessment program as required by the Price-Anderson Act. If losses at any nuclear power plant exceed available commercial insurance, the District could be assessed retrospective premium adjustments. The maximum assessment per reactor per nuclear incident under the retrospective program is \$88.1 million including a 5% surcharge, applicable in certain circumstances, but not more than \$10.0 million per reactor may be charged in any one year for each incident.

Based on the District's ownership share in PVNGS, the maximum potential assessment would be \$46.2 million, including the 5% surcharge, but would be limited to \$5.2 million per incident in any one year.

Spent Nuclear Fuel Storage - Under the Nuclear Waste Policy Act of 1982, the District pays 1/10 of one cent per kWh on its share of net energy generation at PVNGS to the Department of Energy (DOE). The DOE was responsible for the selection and development of repositories for permanent storage and disposal of spent nuclear fuel not later than December 31, 1998. Because of the significant delays in the DOE's schedule, it cannot be determined when the DOE will accept waste from PVNGS or from the other owners of spent nuclear fuel. It is unlikely, due to PVNGS' position in DOE's queue for receiving spent fuel, that Arizona Public Service Company (APS), the operating agent of PVNGS, will be able to initiate shipments to DOE during the licensed life of PVNGS. Accordingly, APS is constructing an on-site dry cask storage facility to receive and store PVNGS' spent fuel. The facility is expected to receive and store spent fuel at the end of 2002.

The District's share of on-site interim storage at PVNGS is estimated to be \$26.5 million for costs to store spent nuclear fuel from inception of the plant to date, and \$1.8 million per year going forward. These costs have been included in the District's regulated operations price plans for transmission and distribution.

Navajo Nation Lawsuit - In June 1999, the Navajo Nation filed a lawsuit in the United States District Court in Washington D.C., alleging that the coal supplier for the Navajo and Mohave Generating Stations (Peabody Coal Company), Southern California Edison Company, the District, and other defendants, had induced the United States to breach its fiduciary duty to the Navajo Nation and had violated federal racketeering statutes. The lawsuit arises out of negotiations that culminated in 1987 with amendments to the coal royalty and lease agreements for mining coal for the Navajo and Mohave Generating Stations. The suit alleges \$600.0 million in damages and seeks treble damages along with punitive damages of not less than \$1.0 billion. In March 2001, the Hopi Tribe intervened in the suit. However, the claims of both the Navajo Nation and the Hopi Tribe have been dismissed in their entirety with respect to the District. While the District has moved for the entry of final judgment in its favor, the Navajo Nation and Hopi Tribe have moved for restoration of the dismissed claims. These motions are pending. If final judgment is entered in favor of the District, it is anticipated that the Navajo Nation and Hopi Tribe will appeal such a judgment.

Previously, the Navajo Nation had filed a lawsuit against the United States Government based on similar allegations. That lawsuit had been dismissed, but on appeal, it was reinstated and the Court of Appeals, in August 2001, held that the United States had breached its fiduciary duty to the Navajo Nation, and that a claim for damages was within the jurisdiction of the Court of Federal Claims. On March 15, 2002, the United States filed a petition for review of that decision with the United States Supreme Court. The District does not believe that these disputes will have material adverse effects on its operations or financial condition.

NOTES TO COMBINED FINANCIAL STATEMENTS

April 30, 2002 and 2001

Environmental – SRP is subject to numerous legislative, administrative and regulatory requirements relative to air quality, water quality, hazardous waste disposal and other environmental matters. SRP conducts ongoing environmental reviews of its properties for compliance and to identify those properties it believes may require remediation. Such requirements have resulted and will continue to result in increased costs associated with the operation of existing properties.

Air Quality – The federal Clean Air Act, as amended, among other things, requires reductions in sulfur dioxide and nitrogen oxide emissions from electric generating stations and regulates emissions of hazardous air pollutants by generating stations.

In December 1999, the participants in Mohave Generating Station settled a lawsuit alleging numerous and continuing violations of opacity and sulfur dioxide standards. Under the terms of the settlement, the participants must install by January 1, 2006, a sulfur dioxide scrubber and other pollution control equipment. Major plant modifications, including emissions controls, are required for continued operation as a coal-fired plant. Capital costs are estimated at \$411.6 million, of which the District's share would be \$82.3 million. These costs are included in the capital contingencies portion of the 2003-2008 Improvement Program. However, the Hopi Tribe has demanded that pumping water for the slurry pipeline cease by the end of 2005. The Mohave Participants have refused to commit to install pollution abatement equipment without reasonable assurance that water would be available to deliver coal to the plant; therefore, because of the time required to order and install the pollution abatement equipment, the plant will likely cease operations at the end of 2005 for some period of time. The District believes that it will be able to replace the energy from Mohave from other sources. Although the Mohave Participants and the Tribe are working diligently to reach a settlement, it is not certain if, and when, a resolution will be reached. If a settlement is not reached, the District believes that the site can continue as a generation source and options for such are under review.

In January 2001, the participants in the Craig Generating Station agreed to settle a lawsuit that alleged, among other things, numerous violations of opacity standards by Craig Units 1 and 2. Under the terms of the settlement, the participants must install fabric filter baghouses and other equipment on Units 1 and 2 by December 31, 2003, and June 30, 2004, respectively. Capital costs are estimated at \$92.8 million, of which the District's share would be \$26.9 million. These costs are included in the capital contingencies portion of the 2003-2008 Improvement Program.

The U.S. Environmental Protection Agency (EPA) is in the process of developing regulations for the control of mercury emissions from coal and oil-fired utility boilers. Regulations are scheduled to be proposed in late 2003 with a compliance date of late 2007. These regulations will affect all new and existing units. The EPA has not yet determined the level of control that will be required. This rule could affect the District's coal-fired units and the District is still uncertain of the impact, which could range from no change to the installation of new emission controls.

President Bush recently proposed a Clear Skies Initiative (CSI) intended to achieve dramatic reductions of sulfur dioxide (SO₂), oxides of nitrogen (NO_x) and mercury (Hg) emissions in a coordinated and phased manner. The administration expects that the CSI will result in substantial power plant emission reductions and provide the electric power generation industry with regulatory certainty while maintaining fuel supply diversity. A number of other bills are also under consideration in Congress that call for significant reductions in SO₂, NO_x and Hg, as well as carbon dioxide (CO₂). The current Clean Air Act contains several provisions that are directed at emissions of SO₂, NO_x, and Hg. The District is planning on future emission reductions at its coal-fired power plants as a result of these legislative and regulatory initiatives. The specific level of reduction and compliance cost will not be known until new legislation is passed or the EPA and the states finalize existing Clean Air Act regulatory programs.

Coal Reclamation Costs In management's opinion, there are sufficient accruals in the accompanying combined financial statements for the District's obligation to reimburse certain coal providers for amounts due for certain coal reclamation costs. However, the District is contesting certain other coal mine reclamation costs. Neither the District's responsibility or the ultimate amount of liability, if any, can be determined at this time. Management does not believe that the outcome of these matters will have a material adverse effect on the District's financial position or results of operations.

The District has a full-requirements contract with El Paso Natural Gas Company (El Paso) for the transportation of natural gas. This contract is under challenge at FERC from producers and marketers who are unhappy with the uncertainty of their deliveries on the El Paso System. At a hearing on the matter held on May 30, 2002, FERC approved the issuance of an order directing El Paso to convert its full-requirements customers to fixed entitlements. While the outcome of this matter is unsettled, the District's available transportation for existing and planned gas generation facilities could be substantially reduced. The financial impact of this dispute cannot be determined, but it could be significant. The District is considering alternatives, including gas storage and construction of additional pipeline, in order to mitigate the impact of an adverse outcome.

Wholesale Energy Market in California In 1996, California adopted a restructuring program for its electric utility industry that combined generation divestiture and reliance on wholesale spot markets with rigid retail price controls. The situation was further compounded by significant increases in fuel costs, transmission constraints between northern and southern California, and a relatively dry period in the Northwest that significantly reduced the amount of hydroelectric power available. The result was a dysfunctional energy market, exponentially high wholesale prices, bankruptcy of California's largest investor-owned utility (Pacific Gas and Electric Company), and inadequate resources to serve customers.

Multiple federal and state agencies, as well as individual claimants, are pursuing numerous investigations and lawsuits, alleging manipulation and other improprieties, including antitrust violations, in connection with the wholesale energy market in California. Because the District was a market participant during the relevant time period (2000 and 2001), the District, along with other participants in the California market, has been named as a defendant in several of these suits and investigations. The District denies any wrongdoings and is cooperating with the federal and state agencies.

From time to time, SRP is involved in litigation and disputes with various Indian tribes on issues concerning regulatory jurisdiction, royalty payments, taxes and water rights, among others (see Navajo Nation Lawsuit and Air Quality above). Resolution of these matters may result in increased operating expenses.

Other Litigation In the normal course of business, SRP is exposed to various litigation or is a defendant in various litigation matters. In management's opinion, the ultimate resolution of these matters will not have a material adverse effect on SRP's financial position or results of operations.

Self-Insurance The District maintains various self-insurance retentions for certain casualty and property exposures. In addition, the District has insurance coverage for amounts in excess of its self-insurance retention levels. The District provides for reserves based on management's best estimate of claims, including incurred but not reported claims. In management's opinion, the reserves established for these claims are adequate, and any changes will not have a material adverse effect on the District's financial position or results of operations.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Salt River Project Agricultural Improvement
and Power District, and
the Board of Governors of
Salt River Valley Water Users' Association

In our opinion, the accompanying combined balance sheets as of April 30, 2002 and the related combined statements of net revenues and comprehensive income and of cash flows present fairly, in all material respects, the financial position of Salt River Project Agricultural Improvement and Power District and its subsidiaries and Salt River Valley Water Users' Association (collectively, the Company) at April 30, 2002 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The combined financial statements of the Company as of April 30, 2001 and for the year then ended were audited by other independent accountants whose report dated June 11, 2001 expressed an unqualified opinion on those statements.

As discussed in Note 3 to the combined financial statements, on May 1, 2001 the Company adopted Statement of Financial Accounting Standards No. 133 and changed its method of accounting for derivative instruments.

PricewaterhouseCoopers LLP

May 30, 2002

To the Board of Directors,
Salt River Project Agricultural Improvement
and Power District, and
Board of Governors,
Salt River Valley Water Users' Association:

We have audited the accompanying combined balance sheets of the SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AND SUBSIDIARIES, and the SALT RIVER VALLEY WATER USERS' ASSOCIATION (collectively, the Company) as of April 30, 2001 and 2000, and the related combined statements of net revenues and comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

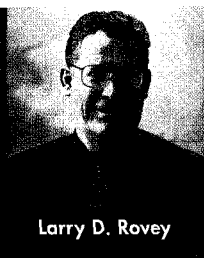
We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of April 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Phoenix, Arizona
June 11, 2001

This is a copy of a previously issued report. The report has not been reissued by Arthur Andersen.



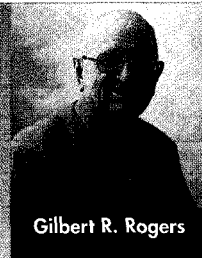
Larry D. Rovey



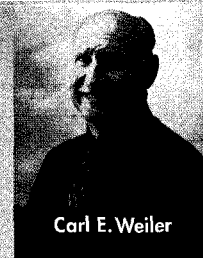
Clarence C. Pendergast Jr.



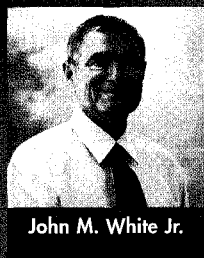
Elvin E. Fleming



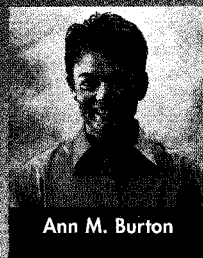
Gilbert R. Rogers



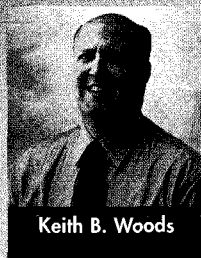
Carl E. Weiler



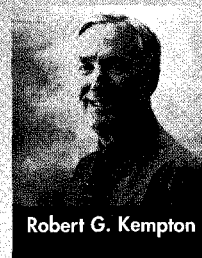
John M. White Jr.



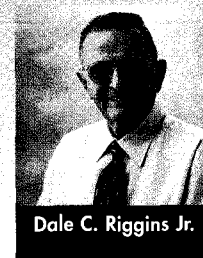
Ann M. Burton



Keith B. Woods



Robert G. Kempton



Dale C. Riggins Jr.

SRP BOARDS The two Boards of Salt River Project work with management to establish policies to further the business affairs of SRP.

The 10 members of the Salt River Valley Water Users' Association Board of Governors serve staggered four-year terms and are elected from voting districts by the landowners within the water service territory. The Association is SRP's private water corporation, which administers the water rights of SRP's 240,000-acre area, and operates and maintains the irrigation and drainage system.

The 14 members of the Salt River Project Agricultural Improvement and Power District Board of Directors serve staggered four-year terms. Ten District Board members are elected from voting divisions and four are elected at-large by landowners within the District's boundaries. The District is SRP's public power utility and a political subdivision of Arizona. Most often, candidates seek election to both Boards.

Note: Director-at-large, Seat 14, pending run-off election.

SRP COUNCILS The two Councils of Salt River Project enact and amend bylaws relating to business affairs of SRP and also serve as liaisons to District electors and Association shareholders.

As with the SRP Boards, there is one Council for the District and one for the Association. The 30 District Council members are elected to staggered four-year terms from 10 divisions. The 30 Association Council members are elected to staggered four-year terms from 10 districts. Most often, candidates seek election to both Councils.

In Memoriam: Board Member Eldon Rudd, February 8, 2002; Council Member Lawrence P. Schrader, August 2, 2001.



Dwayne E. Dobson



David Rousseau

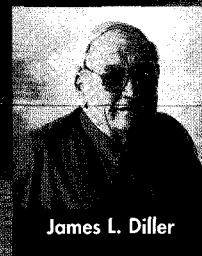


William W. Arnett

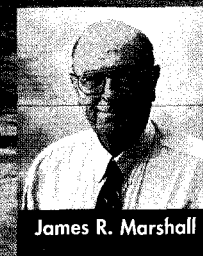


Fred J. Ash

Immediate past members



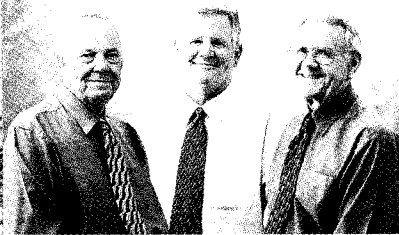
James L. Diller



James R. Marshall

District/Division 1

(left to right)
Robert T. Van
Kevin J. Johnson
John E. Anderson



District/Division 2

Wayne A. Haei
John A. Vanderwe
David B. Boring



District/Division 3

(left to right)
Kevin J. Johnson
John E. Anderson
Mario J. Herrera
Robert T. Van
Wayne A. Haei



Wayne A. Haei
Vice Chairman
John A. Vanderwe
David B. Boring
Charles D. Goppinger
Leslie C. Williams



John E. Anderson
Mario J. Herrera
(left to right)
Robert T. Van
Wayne A. Haei
Stephen R. Williams



(left to right)
Ben A. Butler
Robert W. Warren
Josephine Garwood
Miller



(left to right)
Mark A. Lewis
Keith S. Woods, Division
Ann M. Burton, District
Harmen Tjaarda Jr.



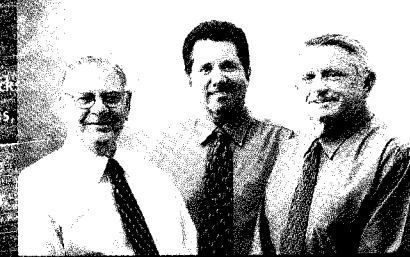
Ben A. Butler
(left to right)
Robert W. Warren
Deborah S. Hendrick
Miller
John R. Hoopes,
Chairman
Mark V. Pace



Mark A. Lewis
Keith S. Woods, Division
Ann M. Burton, District
Harmen Tjaarda Jr.
Arthur L. Freeman
W. Curtis Damm



Deborah S. Hendrick
(left to right)
John R. Hoopes,
Chairman
Orlando J. Rodriguez
William P. Schroeder Jr.
C. Dale Willis



SRP's centennial celebrates the vision of Valley pioneers and our rich history of building and sustaining successful communities. Our legacy is also our vision for the future – a continued commitment to work in partnership with the communities we serve to ensure the vitality of the Salt River Valley. We look forward to our next century of service.



CORPORATE INFORMATION

Corporate Officers

William P. Schrader

John M. Williams Jr.

Terrill A. Lonon

Steven J. Hulet

Executive Management

Richard H. Silverman

David G. Areghini

Mark B. Bonsall

D. Michael Rappoport

John F. Sullivan

L.J. U'Ren

Corporate Counsel

Jane D. Alfano

Manager

Richard M. Hayslip

Corporate Headquarters

Street address

SRP
1521 N. Project Drive
Tempe, AZ
85281-1298

Mailing address

SRP
P.O. Box 52025
Phoenix, AZ
85072-2025

Web site

www.srpnet.com

Inquiries

Dean Yee, Manager
SRP Financial Services
602-236-5231

Bondholder Information

SRP Treasury Department
602-236-2222

Historic Photographs in the SRP 2002 Annual Report

- ver — On the bank of a Valley canal, circa 1900, *SRP Heritage, Ashton Collection*
- Benjamin A. Fowler, *SRP Research Archives*
- 8-9 — Theodore Roosevelt Dam, 1970, *SRP Research Archives*
- i — Arizona delegation at the USS Arizona christening, June 19, 1915, *Special Collections, University of Arizona*
- 12 — SRP makes final payment to the federal government on construction costs for Roosevelt Dam, 1955, *SRP Research Archives*
- 14-15 — SRP's new Crosscut Generating Station, 1938, *SRP Research Archives*
- 16 — Buggy and transmission line on the Apache Trail, circa 1909, *SRP Research Archives*
- 19 — Arizona Falls on the Arizona Canal, circa 1900, *Arizona History and Archives Division, Arizona State Library, Archives & Public Records*
- pp. 20-21 — Laying the cornerstone for the Phoenix Women's Club building, 1911, *Herb and Dorothy McLaughlin Collection, Arizona State University Libraries, photo illustration by SRP*
- p. 22 — One of two original Arizona flags adopted in 1917 by the Arizona Legislature as the official state flag, *Arizona Capitol Museum, Arizona State Library, Archives & Public Records*
- p. 23 — Ella Francis Quimby Fowler, *Connecticut Valley Historical Museum*



EXHIBIT L



Combined Balance Sheets January 31, 2003 and April 30, 2002

ASSETS		CAPITALIZATION & LIABILITIES	
	(\$000)		
	JANUARY 31	APRIL 30	JANUARY 31 APRIL 30
UTILITY PLANT, AT ORIGINAL COST			
PLANT IN SERVICE -			
ELECTRIC IRRIGATION COMMON	\$ 6,940,133 241,878 403,041	\$ 6,652,164 246,974 385,897	
TOTAL PLANT IN SERVICE	7,585,052	7,285,035	
LESS - ACCUMULATED DEPRECIATION	3,470,980 4,114,072	3,313,051 3,971,984	\$ 2,548,266
PLANT HELD FOR FUTURE USE	30,950	31,144	
CONSTRUCTION WORK IN PROGRESS	474,284	482,568	
NUCLEAR FUEL AT AMORTIZED COST	40,203	42,966	
	4,659,509	4,528,662	
OTHER PROPERTY AND INVESTMENTS			
NON-UTILITY PROPERTY AND OTHER INVESTMENTS	80,428	110,166	
SEGREGATED FUNDS, NET OF CURRENT PORTION	554,763	368,296	
	\$ 635,191	\$ 478,462	



Exhibit L

Combined Balance Sheets January 31, 2003 and April 30, 2002

ASSETS

CAPITALIZATION & LIABILITIES

	(\$000)	
	<u>JANUARY 31</u>	<u>APRIL 30</u>
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS, AT COST	\$ 625,034	\$ 594,523
TEMPORARY INVESTMENTS	58,881	185,463
CURRENT PORTION SEGREGATED FUNDS	145,707	81,044
TRADE AND OTHER ACCOUNTS RECEIVABLE, LESS DOUBTFUL ACCOUNTS	166,577	140,843
FUEL STOCKS, AT LAST-IN, FIRST-OUT COST	34,683	35,612
MATERIALS AND SUPPLIES, AT AVERAGE COST	70,060	70,063
OTHER CURRENT ASSETS	22,316	14,964
	<u>1,123,258</u>	<u>1,122,512</u>
DEFERRED CHARGES AND OTHER ASSETS		
	<u>381,578</u>	<u>458,291</u>
	\$ 6,799,536	\$ 6,587,927
CURRENT LIABILITIES		
CURRENT PORTION LONG TERM DEBT	\$ 410,436	\$ 114,340
ACCOUNTS PAYABLE	90,611	121,727
ACCRUED TAXES AND TAX EQUIVALENTS	48,153	57,821
ACCRUED INTEREST	23,692	40,981
CUSTOMERS' DEPOSITS	35,760	26,645
OTHER CURRENT LIABILITIES	<u>100,450</u>	<u>117,706</u>
	<u>709,102</u>	<u>479,220</u>
DEFERRED CREDITS AND OTHER NON-CURRENT LIABILITIES		
	<u>765,310</u>	<u>744,508</u>
	\$ 6,799,536	\$ 6,587,927

EXHIBIT M

Exhibit M



Combined Statement of Electric and Water Operations
For the Fiscal Year-to-Date through January 31, 2003

	(\$000)
OPERATING REVENUES	
ELECTRIC	\$ 1,576,172
WATER AND IRRIGATION	<u>10,162</u>
TOTAL OPERATING REVENUES	<u>1,586,334</u>
OPERATING EXPENSES	
PURCHASED POWER	312,642
FUEL USED IN ELECTRIC GENERATION	293,910
WATER FOR POWER	3,925
OTHER OPERATING EXPENSES	270,815
MAINTENANCE	104,499
DEPRECIATION AND AMORTIZATION	326,399
TAXES AND TAX EQUIVALENTS	<u>67,666</u>
TOTAL OPERATING EXPENSES	<u>1,379,856</u>
NET OPERATING REVENUE	<u>206,478</u>
OTHER INCOME	
INTEREST EARNED ON INVESTMENTS AND DEPOSITS	<u>22,827</u>
NET REVENUES BEFORE FINANCING COSTS	<u>229,305</u>
FINANCING COSTS	
INTEREST ON BONDS	106,013
AMORTIZATION OF BOND DISCOUNT, ISSUE AND RE-FINANCING EXPENSES	(4,302)
INTEREST ON OTHER OBLIGATIONS	18,601
CAPITALIZED INTEREST - DEDUCTION	<u>12,648</u>
NET FINANCING COSTS	<u>107,664</u>
OTHER INCOME (DEDUCTIONS) NET	<u>88</u>
COMBINED NET REVENUES (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	121,729
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	<u>0</u>
NET REVENUES	<u>121,729</u>

EXHIBIT N

In the opinion of Special Tax Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the District, interest on the 2002 Series D Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Special Tax Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the 2002 Series D Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Special Tax Counsel is further of the opinion that, under existing law, interest on the 2002 Series D Bonds is exempt from income taxes imposed by the State of Arizona. See "TAX MATTERS" herein regarding certain other tax considerations.

Salt River Project Agricultural Improvement and Power District, Arizona

\$104,065,000 Salt River Project Electric System Refunding Revenue Bonds, 2002 Series D

Dated: Date of Delivery**Due: January 1, as shown on inside cover**

The 2002 Series D Bonds are being issued pursuant to the Resolution. The District has adopted the Amended and Restated Bond Resolution which will become effective only upon the District obtaining the consent thereto of the holders of two-thirds of all then Outstanding Revenue Bonds under the Resolution. Upon becoming effective, all of the provisions of the Amended and Restated Bond Resolution, including the provisions which reduce the Debt Reserve Requirement and the test for the issuance of additional Revenue Bonds, will be binding and controlling with respect to all Outstanding Revenue Bonds, including the 2002 Series D Bonds. The District cannot predict when the requisite number of consents will be obtained. See "THE RECAPITALIZATION PLAN — Amended and Restated Bond Resolution" and "Appendix C — Form of Amended and Restated Bond Resolution" herein. The purchasers of the 2002 Series D Bonds will be deemed to have consented to the adoption of the Amended and Restated Bond Resolution.

The 2002 Series D Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2002 Series D Bonds. Individual purchases of interests in the 2002 Series D Bonds may be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the 2002 Series D Bonds. Interest with respect to the 2002 Series D Bonds is payable January 1 and July 1 of each year, commencing July 1, 2003.

The principal of and interest on the 2002 Series D Bonds are payable by The Bank of New York, New York, New York, as Trustee, and interest will be payable by check mailed by the Trustee to the registered owner of each 2002 Series D Bond as of the immediately preceding December 15 and June 15. So long as Cede & Co. is the registered owner, the Trustee will pay such principal of and interest on the 2002 Series D Bonds to DTC, which will remit such principal and interest to its Direct Participants for subsequent disbursement to the Beneficial Owners of the 2002 Series D Bonds.

The 2002 Series D Bonds are not subject to redemption prior to maturity.

The 2002 Series D Bonds, together with heretofore and hereafter issued Revenue Bonds, are payable from and secured by a pledge of and lien on all Revenues of the District from the ownership and operation of the Electric System after the payment of Operating Expenses.

The 2002 Series D Bonds do not constitute general obligations of the District or obligations of the State of Arizona, and no holder of any of the 2002 Series D Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2002 Series D Bonds or the interest thereon.

This cover page contains certain information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the 2002 Series D Bonds. Investors should read this Official Statement in its entirety before making an investment decision.

The 2002 Series D Bonds are offered when, as and if issued, and subject to the approval of legality by McCarter & English, LLP, Newark New Jersey, Bond Counsel. Certain legal matters will be passed upon for the District by Nixon Peabody LLP, Washington, D.C., Special Tax Counsel, and for the Underwriters by Winston & Strawn, New York, New York. It is expected that the 2002 Series D Bonds will be available for delivery to DTC in New York, New York, on or about November 21, 2002.

Goldman, Sachs & Co.
Morgan Stanley

JPMorgan

Bear, Stearns & Co. Inc.
Salomon Smith Barney

Morgan Stanley & Co. Incorporated
Dated: November 8, 2002

SRP Exhibit N

04/11/03

**\$104,065,000 SALT RIVER PROJECT ELECTRIC SYSTEM REFUNDING REVENUE BONDS,
2002 SERIES D**

<u>Maturity (January 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number*</u>
2007	\$40,455,000	5.00%	2.76%	79575 DQL7
2008	36,755,000	5.00	3.09	79575 DQM5
2009	26,855,000	5.00	3.32	79575 DQN3

* The CUSIP numbers shown above have been assigned to this issue by an organization not affiliated with the District and are included for the convenience of the Bondholders only. The District shall not be responsible for the selection of CUSIP numbers, nor any representation made as to their correctness on the 2002 Series D Bonds or as indicated herein.

MANAGEMENT OF THE DISTRICT

BOARD OF DIRECTORS

Larry D. Rovey	Robert G. Kempton
C.C. Pendergast, Jr.	Dale C. Riggins, Jr.
Elvin E. Fleming	Dwayne E. Dobson
Gilbert R. Rogers	William W. Arnett
Carl E. Weiler	Fred J. Ash
John M. White, Jr.	Wendy M. Hancock
Ann M. Burton	David Rousseau

PRINCIPAL OFFICERS AND OTHER EXECUTIVES

William P. Schrader	<i>President</i>
John M. Williams, Jr.	<i>Vice President</i>
Richard H. Silverman	<i>General Manager</i>
Terrill A. Lonon	<i>Corporate Secretary</i>
Steven J. Hulet	<i>Corporate Treasurer</i>
David G. Areghini	<i>Associate General Manager, Power, Construction & Engineering Services</i>
Mark B. Bonsall	<i>Associate General Manager, Commercial & Customer Services and Chief Financial Executive</i>
D. Michael Rappoport	<i>Associate General Manager, Public & Communications Services</i>
L. J. U'Ren	<i>Associate General Manager, Operations, Information & Human Resources Services</i>
Jane D. Alfano	<i>Corporate Counsel</i>
Richard M. Hayslip	<i>Manager, Environmental, Land and Risk Management</i>

CONSULTANTS

Legal Advisors	<i>Jennings, Strouss & Salmon, P.L.C.</i>
Independent Public Accountants	<i>PricewaterhouseCoopers LLP</i>
Consulting Engineers	<i>R. W. Beck, Inc.</i>
Bond Counsel	<i>McCarter & English, LLP</i>
Special Tax Counsel	<i>Nixon Peabody LLP</i>
Financial Consultant	<i>Lazard Frères & Co., LLC</i>

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2002 Series D Bonds described herein in any jurisdiction to any person to whom it is unlawful to make such an offer. No dealer, broker, salesman or other person has been authorized by the Salt River Project Agricultural Improvement and Power District (the "District") or the Underwriters to give any information or to make any representations with respect to the 2002 Series D Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriters.

The information set forth herein has been furnished by the District and other sources which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the Electric System since the date hereof.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE 2002 SERIES D BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2002 SERIES D BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE. THE UNDERWRITERS MAY OFFER AND SELL THE 2002 SERIES D BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

This Official Statement contains forward-looking statements within the meaning of the federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about the power utility industry and general economic conditions. Such words as expects, intends, plans, believes, estimates, anticipates or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. Factors which may cause a result different from those expected or anticipated include, among other things, new legislation, increases in suppliers' prices, particularly prices for fuel in connection with the operation of the Electric System, changes in environmental compliance requirements, acquisitions, changes in customer power use patterns, natural disasters and the impact of weather on operating results. The District assumes no obligation to provide public updates of forward-looking statements.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as they apply to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the 2002 Series D Bonds to potential investors is made only by means of the entire Official Statement. Certain terms used herein are defined in this Official Statement.

District: The Salt River Project Agricultural Improvement and Power District (the "District") is an agricultural improvement district, organized under the laws of the State of Arizona, which provides electric service in a 2,900 square mile service territory in parts of Maricopa, Gila and Pinal Counties in Arizona, plus mine loads in an adjacent 2,400 square mile area in Gila and Pinal Counties.

The 2002 Series D Bonds: The 2002 Series D Bonds are being offered in the principal amount per maturity and bearing interest at the rates set forth on the inside cover page of this Official Statement. The 2002 Series D Bonds are authorized pursuant to the Constitution and laws of the State of Arizona and in particular Article 7, Chapter 17, Title 48, Arizona Revised Statutes (the "Act") and the Resolution Concerning Revenue Bonds, dated as of November 1, 1972, as supplemented and amended (the "Resolution").

Purpose of the 2002 Series D Bonds: The 2002 Series D Bonds are being issued as part of the District's Recapitalization Plan in response to changes in federal and state laws and actions by regulatory bodies. The proceeds of the 2002 Series D Bonds will be used to refund certain outstanding Revenue Bonds of the District. Proceeds of the 2002 Series D Bonds may also be used to pay costs of issuing the 2002 Series D Bonds. See "PLAN OF FINANCE," "THE RECAPITALIZATION PLAN" and "SOURCES AND USES OF PROCEEDS" herein.

Security for the 2002 Series D Bonds: The 2002 Series D Bonds and all Revenue Bonds heretofore and hereafter issued will be payable from and secured by a pledge of lien on all Revenues derived by the District from the ownership and operation of the Electric System after the payment of Operating Expenses and payments required to be made under United States Government Loans heretofore and hereafter incurred by the District. Such pledge created by the Resolution is subject only to the provisions of the Resolution permitting the application of Revenues for the purposes and upon the terms and conditions set forth in the Resolution.

The District has covenanted in the Resolution not to issue any bonds or other obligations or create any additional indebtedness which will have priority over the charge and lien on the Revenues pledged to the Revenue Bonds except for United States Government Loans heretofore and hereafter incurred. The District currently has no United States Government Loans outstanding.

The District has covenanted in the Resolution to maintain the Debt Reserve Account at the Debt Reserve Requirement. In the past, the District, though not required to do so, has followed the practice of increasing the Debt Reserve Requirement at the time of the issuance of additional Revenue Bonds to approximately one-half the average annual Debt Service on all Outstanding Revenue Bonds. Immediately preceding the issuance of the 2002 Series D Bonds, the balance in the Debt Reserve Account was \$74,255,000. Upon issuance of the 2002 Series D Bonds, the Debt Reserve Requirement will be approximately one-half the average annual Debt Service on all outstanding Revenue Bonds. See "THE RECAPITALIZATION PLAN — Amended and Restated Bond Resolution" herein for a description of an amendment to the Resolution, which if approved by two-thirds of the holders of the then Outstanding Revenue Bonds, will reduce the Debt Reserve Requirement.

The District has covenanted in the Resolution that, among other things, it will at all times maintain rates, fees or charges sufficient for the payment of Operating Expenses of the District and to pay the Debt Service on all Revenue Bonds and Subordinated Obligations.

The 2002 Series D Bonds do not constitute general obligations of the District or obligations of the State of Arizona, and no holder of any of the 2002 Series D Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2002 Series D Bonds or the interest thereon. See "SECURITY FOR BONDS" herein.

Outstanding Indebtedness: As of April 30, 2002, the District had approximately \$3,033,931,000 outstanding long-term debt, net of current portion, consisting of \$2,508,931,000 Revenue Bonds and general fund debt of \$525,000,000 consisting of promissory notes sold in the tax-exempt commercial paper market. The promissory notes are payable from the District's general funds and do not have a lien on Revenues of the Electric System.

The District has entered into certain long-term power purchase contracts that secure the debt service payments on certain bonds issued by another Arizona political subdivision. The principal amount of such bonds thus secured at June 30, 2002 was \$172.5 million.

Limitation on Additional Indebtedness: The District is authorized to issue parity Revenue Bonds upon compliance with the provisions of the Resolution. See "Appendix B — Summary of the Resolution" attached hereto. The District may also issue at any time, or from time to time, evidences of indebtedness, which are payable out of Revenues and which may be secured by a pledge of Revenues, provided, however, that such pledge shall be, and shall be expressed to be, subordinate in all respects to the pledge of the Revenues created by the Resolution. See "THE RECAPITALIZATION PLAN — Amended and Restated Bond Resolution" herein for a description of an amendment to the Resolution which, if approved by two-thirds of the holders of the then Outstanding Revenue Bonds, will reduce the test for the issuance of additional Revenue Bonds.

Authority to Set Electric Prices: Under Arizona law, the District is authorized to set electric rates ("prices"). Although the Articles of Incorporation of the Association provide that the Secretary of the Interior may revise such prices, the Secretary of the Interior has never requested any such revision. See "ELECTRIC PRICES" herein.

Service Area: The District's service area includes the major populated sections of Maricopa County, as well as portions of Pinal and Gila Counties. The District serves approximately 53% of the population living in the Phoenix-Mesa Metropolitan Statistical Area (the "Phoenix-Mesa MSA") and had an historic peak load of approximately 5,296 MW in July 2002. Nearly 50% of annual retail electric revenues are received from residential customers.

Transmission and Distribution Facilities: The District owns transmission and distribution systems in order to deliver electricity. These systems include both overhead and underground lines with voltage levels ranging from 12kV to 500kV. In addition, the District also has acquired rights on transmission systems owned by others. See "THE ELECTRIC SYSTEM — Existing and Future Resources" herein.

Power Supply Resources: The District's power supply resources are diversified and include generating facilities owned solely by the District, generating facilities in which the District has an ownership interest, and various power purchase contracts. See "THE ELECTRIC SYSTEM — Existing and Future Resources" herein.

Retail Competition: The District opened its entire service area to generation competition by electricity suppliers who had been approved by the Arizona Corporation Commission ("ACC") in June 2000 and opened the entire service area to competition in the areas of billing, collection, metering and meter reading on December 31, 2000. There has been no material adverse effect on the District as a result of such action. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — District's Response to Utility Industry Developments" herein.

Recapitalization Plan: As a result of changes in federal and state laws and actions by regulatory bodies, the District has undertaken a plan to improve the District's operating efficiency and financing flexibility (the "Recapitalization Plan") so that it is better positioned to remain competitive and to respond to future changes.

As part of the Recapitalization Plan, the District issued its \$580,570,000 Salt River Project Electric System Refunding Revenue Bonds, 2001 Series A, its \$432,560,000 Salt River Project Electric System Refunding Revenue Bonds, 2002 Series A, its \$570,000,000 Salt River Project Electric System Revenue Bonds, 2002 Series B, and plans to issue concurrent, with the 2002 Series D Bonds its \$202,385,000 Salt River Project Electric System Refunding Revenue Bonds, 2002 Series C, on December 14, 2001, February 22, 2002 September 26, 2002 and November 21, 2002, respectively. The District also defeased with cash \$408,045,000 of its Outstanding Revenue Bonds on August 14, 2002. The Recapitalization Plan may include the refunding of other Outstanding Revenue Bonds, the solicitation of tenders for outstanding Revenue Bonds, the redemption of outstanding Revenue Bonds prior to maturity and the issuance of additional Revenue Bonds. In addition, the District may (but is not obligated to) solicit Bondholder consents to the Amended and Restated Bond Resolution (as hereinafter defined) and may provide for the payment for such consents.

Amended and Restated Bond Resolution: As part of the Recapitalization Plan, the District has adopted a Supplemental Resolution Amending and Restating the Resolution Concerning Revenue Bonds (the "Amended and Restated Bond Resolution") that contains certain amendments to the Resolution, including amendments which reduce the Debt Reserve Requirement and the test for the issuance of additional Revenue Bonds. The purpose of the Amended and Restated Bond Resolution is to modernize the Resolution which was adopted in 1972 and does not reflect subsequent developments in the electric utility industry and financial markets. The amendments contained in the Amended and Restated Bond Resolution become effective if approved by two-thirds of the holders of the then Outstanding Revenue Bonds, and are intended to improve the District's operating efficiency and provide financing flexibility in order to better position the District to remain competitive in a changing electric utility industry.

Continuing Disclosure: The District has covenanted in the Resolution to provide certain financial information and operating data relating to the Electric System and to provide notices of certain occurrences of certain enumerated events, if material, pursuant to the Continuing Disclosure Agreement. See "CONTINUING DISCLOSURE" herein and "Appendix E — Form of Continuing Disclosure Agreement" attached hereto.

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**SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT, ARIZONA**

OFFICIAL STATEMENT

RELATING TO

\$104,065,000

**SALT RIVER PROJECT ELECTRIC SYSTEM REFUNDING REVENUE BONDS,
2002 SERIES D**

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and the Appendices hereto, is to furnish certain information with respect to the Salt River Project Agricultural Improvement and Power District (the "District") and its Salt River Project Electric System Refunding Revenue Bonds, 2002 Series D (the "2002 Series D Bonds") to be issued by the District. The mailing address of the District's administrative offices is The Office of the Secretary, PAB215, Post Office Box 52025, Phoenix, Arizona 85072-2025 (telephone number 602-236-5900).

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement and the Appendices hereto. Capitalized terms not defined in this introduction have the meaning ascribed thereto herein.

Authorization

Revenue Bonds, which include the 2002 Series D Bonds, are authorized pursuant to the Constitution and laws of the State of Arizona and, in particular, Article 7, Chapter 17, Title 48, Arizona Revised Statutes (the "Act") and the Resolution Concerning Revenue Bonds, dated as of November 1, 1972, as supplemented and amended (the "Resolution"). Prior to the delivery of the 2002 Series D Bonds, the District's Board of Directors (the "Board") will have authorized the issuance of the 2002 Series D Bonds and the District's Council will have ratified and confirmed the District's action. See "THE BONDS" herein and "Appendix B — Summary of the Resolution" attached hereto.

PLAN OF FINANCE

The District will issue the 2002 Series D Bonds in order to refund certain of the District's outstanding Revenue Bonds as further described below. Proceeds of the 2002 Series D Bonds may also be used to pay costs of issuing the 2002 Series D Bonds. The 2002 Series D Bonds will be issued under the Resolution. See "THE RECAPITALIZATION PLAN — Resolution" herein and "Appendix B — Summary of the Resolution" attached hereto. See also "SOURCES AND USES OF PROCEEDS" herein. The Refunded Bonds will be redeemed on the applicable redemption dates and at the applicable redemption prices, as shown in Appendix G attached hereto.

Upon delivery of the 2002 Series D Bonds, a portion of the proceeds of the 2002 Series D Bonds will be deposited, together with other available moneys, pursuant to an Escrow Deposit Agreement (the "Escrow Deposit Agreement"), between the District and The Bank of New York, as escrow agent (the "Escrow Agent"), to provide for the defeasance of all of the Refunded Bonds. The Escrow Deposit Agreement will create an irrevocable trust fund (the "Escrow Fund") to be held by the Escrow Agent and applied to the payment of the Refunded Bonds. Pursuant to the Escrow Deposit Agreement, amounts on deposit in the Escrow Fund will be

either held as cash or invested in permitted Investment Securities which will mature as to principal and interest at such times and in such amounts as will be sufficient, together with the cash on deposit in the Escrow Fund, to pay the redemption price of the Refunded Bonds and to pay interest on all of the Refunded Bonds on and prior to the applicable Redemption Date set forth above. The Escrow Fund, including the principal of and interest earned on such Investment Securities, will be pledged solely for the benefit of the holders of the applicable series of Refunded Bonds. The Investment Securities and cash on deposit in the Escrow Fund will not secure the 2002 Series D Bonds and will not be available to pay the principal of or interest on the 2002 Series D Bonds.

Upon issuance of the 2002 Series D Bonds, the Refunded Bonds to be redeemed prior to maturity will be irrevocably designated for redemption as described above and will not be subject to redemption prior to the applicable Redemption Date set forth above.

THE RECAPITALIZATION PLAN

General

As a result of changes in federal and state laws and actions by regulatory bodies, the District has undertaken a plan to improve the District's operating efficiency and financing flexibility (the "Recapitalization Plan") so that it is better positioned to remain competitive and to respond to future changes.

As part of the Recapitalization Plan, the District issued its \$580,570,000 Salt River Project Electric System Refunding Revenue Bonds, 2001 Series A, its \$432,560,000 Salt River Project Electric System Refunding Revenue Bonds, 2002 Series A and its \$570,000,000 Salt River Project Electric System Revenue Bonds, 2002 Series B and plans to issue concurrently with the 2002 Series D Bonds, its \$202,385,000 Salt River Project Electric System Refunding Revenue Bonds, 2002 Series C, on December 14, 2001, February 22, 2002 and September 26, 2002 and November 21, 2002, respectively. The District also defeased with cash \$408,045,000 of its Outstanding Revenue Bonds on August 14, 2002. The Recapitalization Plan may include the refunding of other outstanding Revenue Bonds, the solicitation of tenders for outstanding Revenue Bonds, the redemption of outstanding Revenue Bonds prior to maturity and the issuance of additional Revenue Bonds. In addition, the District may (but is not obligated to) solicit Bondholder consents to the Amended and Restated Bond Resolution (as hereinafter defined) and may provide for the payment for such consents. The District will use a portion of the proceeds of the 2002 Series D Bonds to refund the Refunded Bonds. See "PLAN OF FINANCE" herein.

The District may use the proceeds of additional Revenue Bonds to be issued or available cash on hand to fund the cost of the refunding and redemption of, and/or purchase through the execution of an open market tender offer for, certain of the District's outstanding Revenue Bonds. No assurance can be given as to which Revenue Bonds may be refunded and redeemed prior to maturity or which Revenue Bonds may be solicited for tender in connection with the Recapitalization Plan.

The goals of the Recapitalization Plan are: (i) to accelerate debt retirement by the District of its Revenue Bonds; (ii) to provide the District with increased financing and operating flexibility in the future; (iii) to issue new Revenue Bonds for distribution expenses; (iv) to adopt a modern and more flexible bond resolution; and (v) to recognize Debt Service savings. If the District issues additional Revenue Bonds to finance distribution facilities, such issuance would enable the District to allocate Revenues, which would have otherwise been used to pay for the costs of distribution facilities, to the payment of Debt Service. In approximately seven years, the outstanding principal amount of Revenue Bonds, as a result of the Recapitalization Plan, will be approximately the same as it would have been without the Recapitalization Plan.

Resolution

The Resolution provides for certain terms and conditions, which apply to all series of Revenue Bonds. Each series of Revenue Bonds is to be issued pursuant to the Resolution as supplemented by a Series Resolution. The Resolution provides, among other things, the conditions that must be satisfied for the issuance of Revenue Bonds, the covenants of the District with respect to the Revenue Bonds, and the terms under which the Resolution may be amended, including amendments which require the consent of the owners of the Revenue Bonds. See "Appendix B — Summary of the Resolution" attached hereto.

Amended and Restated Bond Resolution

As part of the Recapitalization Plan, the District has adopted a Supplemental Resolution Amending and Restating the Resolution Concerning Revenue Bonds (the "Amended and Restated Bond Resolution"), which contains certain amendments to the Resolution. The purpose of the Amended and Restated Bond Resolution is to modernize the Resolution which was adopted in 1972 and does not reflect subsequent developments in the electric utility industry and financial markets. The amendments contained in the Amended and Restated Bond Resolution are intended to improve the District's operating efficiency and provide financing flexibility in order to better position the District to remain competitive in a changing electric utility industry.

The Amended and Restated Bond Resolution amends the Resolution by, among other things,

- Expanding the definition of Investment Securities to include any securities permitted by law;
- Expanding the definition of Operating Expense to include "take or pay contracts" pursuant to which power is actually delivered to the District;
- Reducing the test for the issuance of additional Revenue Bonds to 1.10 times Debt Service coverage;
- Reducing the Debt Reserve Requirement to an amount equal to one-half of the average annual interest cost for all Outstanding Revenue Bonds, which may be satisfied by the deposit of cash or securities in the Debt Reserve Account or by the deposit of a Debt Reserve Account Credit Facility in the Debt Reserve Account in lieu of or in partial substitution for cash or securities on deposit therein. For the purposes of determining the average annual interest cost for any Outstanding Revenue Bonds that bear interest at a variable rate, the District shall assume the same average interest cost applicable to such Outstanding Revenue Bonds for the previous fiscal year. For the purposes of determining the average annual interest cost for any Outstanding Revenue Bonds that do not bear current interest, the District will use the annual accreted value of such Outstanding Revenue Bonds;
- Clarifying the provision for the issuance of refunding bonds and the provision for a conditional notice of redemption;
- Providing for indebtedness for Separately Financed Projects; and
- Providing for the issuance of variable rate debt and for principal and interest payment dates other than January 1 and July 1.

FOR A COMPLETE DESCRIPTION OF THE AMENDMENTS TO THE RESOLUTION INCORPORATED IN THE AMENDED AND RESTATED BOND RESOLUTION SEE "APPENDIX C — FORM OF AMENDED AND RESTATED BOND RESOLUTION" ATTACHED HERETO.

The Amended and Restated Bond Resolution will become effective only upon the District obtaining the written consent of the holders of two-thirds in principal amount of the Revenue Bonds then outstanding under the Resolution. As a result of the Underwriters' consent to the adoption of the Amended and Restated Bond Resolution through their purchase of the 2002 Series D Bonds, the holders from time to time of the 2002 Series D Bonds will be deemed to have consented to the adoption of the Amended and Restated Bond Resolution. The District also intends to obtain the consent to the Amended and Restated Bond Resolution of the holders of any additional Revenue Bonds issued in the future whether issued for construction, refunding, financing of tenders or other purposes. Such consents may be obtained through the underwriters of such Revenue Bonds or through the consents of the subsequent purchasers. In addition, the District may solicit the consent of the current holders of outstanding Revenue Bonds under the Resolution in accordance with the terms of the Resolution and may agree to pay the holders of such Revenue Bonds for their consents. Preceding the issuance of the 2002 Series D Bonds, there will be outstanding approximately \$2,726,421,000 of Revenue Bonds of which \$1,785,515,000 will have consented to the Amended and Restated Bond Resolution.

Upon becoming effective, all of the provisions of the Amended and Restated Bond Resolution will be binding and controlling with respect to all Outstanding Revenue Bonds, including the 2002 Series D Bonds. The Resolution also contains provisions which permit the rescission of a previously given consent to an amendment under certain circumstances. See "Appendix B — Summary of the Resolution" attached hereto. No assurance can be given, even if the requisite number of written consents are obtained, that some or all will not be rescinded before the Amended and Restated Bond Resolution becomes effective. Until such time as the Amended and Restated Bond Resolution is in effect, the District will continue to comply with the provisions of the Resolution.

THE 2002 SERIES D BONDS

General

2002 Series D Bonds

The 2002 Series D Bonds will be issued in the principal amount of \$104,065,000 and will be dated and bear interest from the date of delivery. The 2002 Series D Bonds will mature on the dates and in the principal amounts, and bear interest, payable on January 1 and July 1 of each year, commencing July 1, 2003, at the respective rates shown on the inside cover page of this Official Statement. The principal of and interest on the 2002 Series D Bonds are payable by The Bank of New York, New York, New York (the "Trustee"), and interest thereon will be payable by check mailed by the Trustee to the registered owner of each 2002 Series D Bond as of the immediately preceding December 15 or June 15.

Book-Entry Only System

The 2002 Series D Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2002 Series D Bonds. Individual purchases of interests in the 2002 Series D Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the 2002 Series D Bonds. So long as Cede & Co. is the registered owner of the 2002 Series D Bonds, the Trustee will make payments of principal and redemption price, if any, of and interest on the 2002 Series D Bonds directly to DTC, which will remit such principal, redemption price, if any, of and interest to the Beneficial Owners (as hereinafter defined in "Appendix E — Form of Continuing Disclosure Agreement") of the 2002 Series D Bonds, as described herein. See "Appendix F — Book-Entry Only System" attached hereto.

Redemption

The 2002 Series D Bonds are not subject to redemption prior to maturity.

Registration and Transfer Upon Discontinuation of Book-Entry Only System

The Bank of New York will act as bond registrar ("Bond Registrar"), transfer and paying agent for the 2002 Series D Bonds. If the book-entry only system were discontinued, the following provisions would apply. A 2002 Series D Bond may be transferred on the bond register maintained by the Bond Registrar upon surrender of the 2002 Series D Bond at the principal corporate trust office of the Bond Registrar, accompanied by a written instrument of transfer, in form satisfactory to the Bond Registrar, signed by the registered owner or a duly authorized attorney for the registered owner. Upon surrender for transfer at the principal corporate trust office of the Bond Registrar, any 2002 Series D Bond may be exchanged for 2002 Series D Bonds of the same series, aggregate principal amount, maturity date and interest rate, of any authorized denomination.

SOURCES AND USES OF PROCEEDS AND OTHER AMOUNTS

2002 Series D Bonds

The sources and uses of funds with respect to the 2002 Series D Bonds, are as follows:

Sources of Funds

Principal Amount of 2002 Series D Bonds	\$104,065,000
Net Original Issue Premium	9,267,852
Other Sources of Funds From the District	
Transfers from: Debt Service Fund	2,644,020
Debt Reserve Fund	1,365,000
Equity	39,780
Total Sources of Funds	<u>\$117,401,652</u>

Uses of Funds

Refunding of Refunded Bonds	\$116,621,873
Cost of Issuance (including Underwriters' Discount)	779,779
Total Uses of Funds	<u>\$117,401,652</u>

SECURITY FOR THE 2002 SERIES D BONDS

General

The District proposes to amend certain provisions of the Resolution pursuant to the Amended and Restated Bond Resolution. Upon receipt of the requisite number of consents of Bondholders the provisions of the Amended and Restated Bond Resolution will become effective and will govern all Outstanding Revenue Bonds, including the 2002 Series D Bonds. For a description of these amendments, some of which affect the security for the Revenue Bonds, see "THE RECAPITALIZATION PLAN — Amended and Restated Bond Resolution" herein and "Appendix C — Form of Amended and Restated Bond Resolution" attached hereto.

The Revenue Bonds, including the 2002 Series D Bonds, are payable from and secured by a pledge of and lien on Revenues. Revenues are defined in the Resolution as (i) all revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System and (ii) interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Resolution and paid into the Revenue Fund.

In addition, the Revenue Bonds, including the 2002 Series D Bonds, are also secured by all funds held under the Resolution. Such pledge created by the Resolution is subject only to the provisions of the Resolution permitting the application of Revenues for the purposes and upon the terms and conditions set forth in the Resolution.

The 2002 Series D Bonds will not constitute general obligations of the District or obligations of the State of Arizona, and no holder of Revenue Bonds will ever have the right to compel any exercise of the taxing powers of the District to pay the Revenue Bonds or the interest thereon.

Debt Reserve Account

The Debt Reserve Account is a reserve fund for the equal benefit of all Revenue Bonds Outstanding under the Resolution. Moneys in the Debt Reserve Account (except any excess over the Debt Reserve Requirement that the District may allocate and apply in the same manner as Revenues) will be used solely for the purpose of curing any deficiency in the Debt Service Fund for the payment of principal, interest or sinking fund payments pursuant to the Resolution. See "THE RECAPITALIZATION PLAN — Amended and Restated Bond Resolution" herein for a description of an amendment to the Resolution which, if approved by two-thirds of the holders of the then Outstanding Revenue Bonds, will reduce the Debt Reserve Requirement.

In the past, the District, though not required to do so, has followed the practice of increasing the Debt Reserve Requirement at the time of issuance of additional Revenue Bonds to equal approximately one-half the average annual Debt Service on all outstanding Revenue Bonds. At April 30, 2002 the balance in the Debt Reserve Account was \$68,008,000. Upon the issuance of the 2002 Series D Bonds, the Debt Reserve Requirement will be approximately one-half the average annual Debt Service on all outstanding Revenue Bonds.

Rate Covenant

The District covenants in the Resolution that it will charge and collect rates, fees and other charges for the sale of electric power and energy and other services, facilities and commodities of the Electric System as shall be required to provide revenues and income (including investment income) at least sufficient in each fiscal year for the payment of the sum of (i) Operating Expenses during such fiscal year, including reserves, if any, provided therefor in the Annual Budget for such year; (ii) an amount equal to the Aggregate Debt Service for such fiscal year; (iii) the amount, if any, to be paid during such fiscal year into the Debt Reserve Account in the Debt Service Fund; and (iv) all other charges or liens whatsoever payable out of revenues and

income during such fiscal year and, to the extent not otherwise provided for, all amounts payable on Subordinated Obligations. See "ELECTRIC PRICES" herein.

Limitations on Additional Indebtedness

The District has covenanted in the Resolution not to issue any bonds or other obligations or create any additional indebtedness, which would have priority over the charge and lien on the Revenues pledged to the Revenue Bonds except for U.S. Government Loans heretofore or hereafter incurred. The Resolution does not restrict the amount of U.S. Government Loans the District may incur, which would have a prior lien on Revenues. There are no outstanding U.S. Government Loans.

The District may issue additional parity Revenue Bonds in compliance with the Resolution if, among other things, (i) Revenues Available for Debt Service, as the same may be adjusted, of any 12 consecutive calendar months out of the 24 calendar months next preceding the issuance of such additional Revenue Bonds are not less than 1.20 times the maximum total Debt Service for any succeeding fiscal year on all Revenue Bonds that will be outstanding immediately prior to the issuance of the additional Revenue Bonds, and (ii) estimated Revenues Available for Debt Service, as the same may be adjusted, for each of the five fiscal years immediately following the issuance of such additional Revenue Bonds are not less than 1.35 times the total Debt Service for each such respective fiscal year on all Revenue Bonds outstanding immediately subsequent to the issuance of such additional Revenue Bonds. See **"THE RECAPITALIZATION PLAN — Amended and Restated Bond Resolution"** herein for a description of an amendment to the Resolution which, if approved by two-thirds of the holders of the then Outstanding Revenue Bonds, will reduce the test for the issuance of additional Revenue Bonds.

Subordinated Obligations

The District may, at any time, or from time to time, issue evidences of indebtedness which are payable out of Revenues and which may be secured by a pledge of Revenues provided, however, that such pledge shall be and shall be expressed to be, subordinate in all respects to the pledge of the Revenues, moneys, securities and funds created by the Resolution. See "Appendix B — Summary of the Resolution" attached hereto.

Other Covenants

In addition to the rate covenant described above, the Resolution includes covenants by the District with respect to the sale and/or lease of the Electric System, the operation and maintenance of the Electric System, and certain other matters. See "Appendix B — Summary of the Resolution" attached hereto.

THE DISTRICT

General

The District is an agricultural improvement district organized in 1937 under the laws of the State of Arizona. It operates the Salt River Project (the "Project"), a federal reclamation project, under contracts with the Salt River Valley Water Users' Association (the "Association") by which it has assumed the obligations of the Association to the United States of America for the care, operation and maintenance of the Project. The District owns and operates an electric system (hereinafter described) which generates, purchases and distributes electric power and energy, and provides electric service to residential, commercial, industrial and agricultural power users in a 2,900 square mile service territory in parts of Maricopa, Gila and Pinal Counties, plus mine loads in an adjacent 2,400 square mile area in Gila and Pinal Counties. The Association operates an irrigation system as the agent of the District.

History

The Association, predecessor of the District, was incorporated under the laws of the Territory of Arizona in February 1903 to represent the owners and occupants of lands to be benefited by the Project, which was one of the first projects authorized under the Federal Reclamation Act of 1902. In 1904, the Association and the United States entered into a contract in which the United States agreed to construct and operate dams, power plants and other facilities incident to the operation of irrigation and power works and improvements, and the Association agreed to repay the cost thereof. Initially, the United States constructed, operated and maintained Roosevelt Dam and Granite Reef Dam, which diverted impounded water into a canal system to supply irrigation water to the irrigable lands within the Project. In 1917, the Association entered into a contract with the United States to assume the care, operation and maintenance of the Project (the "1917 Agreement").

On January 25, 1937, the District was formed to secure for the Project the rights, privileges and exemptions granted to political subdivisions of the State of Arizona. Pursuant to a contract approved by the Secretary of Interior in 1937 (the "1937 Agreement"), the Association transferred all of its right, title and interest in and to the works and facilities of the Project to the District. The District agreed to assume the debt of the Association and to issue District bonds to finance capital improvements. The Association agreed to continue to operate and maintain the water supply and irrigation system and the Electric System. In 1949, the 1937 Agreement was amended to provide that the District would assume responsibility for the construction, operation and maintenance of the Electric System and the irrigation and water supply system. The District delegated to the Association, as agent of the District, the direct operation and maintenance of the irrigation system of the Project.

The United States retains a paramount right or claim in the Project that arises from the original construction and operation of certain of the Project's electric and water facilities as a federal reclamation project. Although title to a substantial portion of the District's property, including those properties acquired pursuant to the 1917 Agreement, resides in the United States, the District possesses contractual rights to the use, possession and revenues of these properties through its agreement with the Association, the 1917 Agreement, subsequent contractual arrangements with the United States, and applicable federal reclamation law.

Generation and sale of electrical power and energy represent the major portion of the District's investment and revenues. Following a long-standing reclamation principle, a portion of electric revenues available after the payment of Operating Expenses and Debt Service required under the Resolution is used to provide partial support for water and irrigation operations, thereby keeping water storage, distribution and delivery charges at reasonable levels.

Organization, Management and Employees

The District and the Association are each governed by a Board and a Council. The Respective Boards establish the policies for management and conduct of the business affairs of the District and the Association. The Councils enact and amend by-laws relating to management and act as a liaison with the landowners. The General Manager of the District has management responsibilities for both the District and the Association.

The Board of Governors of the Association, elected from among the shareholders (landowners), consists of the President, Vice President and ten members, half being elected biennially for four-year terms. The Board of Directors of the District, elected from among the electors (landowners) for four-year terms, consists of the President and Vice President and fourteen members, half being elected biennially for four-year terms. The President and Vice President are elected at large by electors of the District. Ten of the District's Board members, the President, and the Vice President are elected by votes weighted in proportion to the amount of land owned by each elector. The remaining four Board members are elected at large, with each elector (landowner) being entitled to one vote.

The Councils for both the Association and the District each consist of thirty members. Three Council members from each of the ten district areas of the Association, and three Council members from each of the ten division areas of the District, are elected biennially for four-year terms. One half of each of the Association and the District Councils are elected biennially. All Council members are elected by votes weighted in proportion to the amount of land owned by each shareholder (Association) or elector (District).

As of June 2002, District and Association full-time, regular employees totaled approximately 4,378, including approximately 2,001 hourly employees represented by the International Brotherhood of Electrical Workers, Local 266. The present labor contracts expire on November 15, 2002. The District commenced labor negotiations in September 2002.

Economic and Customer Growth in the District's Service Area

The District serves approximately 53% of the population living in the Phoenix-Mesa MSA. As the governmental and economic center of Arizona, the Phoenix-Mesa MSA continues to attract the largest percentage of the state's residents, businesses, and income. It contains approximately 63% of the state's population, and over two-thirds of its total employment and total personal income.

The Phoenix-Mesa MSA has experienced strong economic growth since the recession of the early 1990's. The 2000 Census revealed that growth was higher than previously estimated. From 1990 to 2000, population in Maricopa County increased by 950,000, a 45% increase. This growth has been fueled by positive net migration due to the area's healthy growth in jobs. While there has been some slowing recently, the Phoenix area continues to benefit from strong population growth. Although the metro area has experienced declines in total employment since September 2001, looking forward, the District expects the Phoenix-Mesa MSA to emerge from the current recession in 2003 with local employment growth recovering thereafter. Average population growth should decline to 2.6% annually from the 3.5% seen in recent years.

Table 1 summarizes several key economic statistics over recent years.

TABLE 1 — Historical Growth Statistics

**Phx-Mesa MSA
Non-Agricultural**

<u>Year</u>	<u>State of Arizona Population (thousands) (3)</u>	<u>Phx-Mesa MSA Population (thousands) (3)</u>	<u>Wage & Salary Employment (thousands) (1)</u>	<u>Phx-Mesa MSA Residential Permits (2)</u>	<u>Phx-Mesa MSA Personal Income (\$ billions) (2)</u>
1995	4,307	2,668	1,225	37,536	59.8
1996	4,462	2,778	1,312	39,646	65.0
1997	4,600	2,871	1,383	43,224	71.1
1998	4,764	2,964	1,458	47,802	77.6
1999	4,924	3,079	1,525	47,713	83.2
2000	5,131	3,252	1,582	45,310	90.3
2001	5,320	3,379	1,595	43,073	NA

(1) State of Arizona, Department of Economic Security.

(2) University of Arizona, "Economic Outlook" and data banks.

(3) State of Arizona, Department of Economic Security and Maricopa County Association of Governments, as of July 1 of each year, except for 1995 and 2000, which are April Census numbers. Population numbers for 1996-1999 and 2001 are estimated.

As shown above, from 1995 through 2001, 370,000 new jobs were created in the Phoenix-Mesa MSA, an increase of 30%, or 4.5% per year. Employment growth has been healthy as evidenced by the employment sectors below:

Phoenix-Mesa MSA Employment

<u>Year</u>	<u>Construction</u>	<u>Manufacturing</u>	<u>Trade</u>	<u>Services</u>
1995	84,800	148,400	305,500	366,000
1996	90,200	154,400	325,600	403,100
1997	95,100	161,500	338,700	431,900
1998	105,400	169,500	353,500	453,300
1999	113,700	164,600	363,100	492,600
2000	118,400	165,700	375,500	514,400
2001	121,200	159,000	381,700	515,900

Source: State of Arizona, Department of Economic Security.

For 2001, the manufacturing sector accounted for 10% of total wage and salary employment and construction accounted for 7.5%. The largest sectors were services at 32% and trade at 24%. Government's share was 13%. Finance, insurance and real estate, transportation, communications, public utilities, and mines make up the other 13.5%.

Employment growth in the area has historically compared favorably to national figures. From 1995 through 2000 employment increased an estimated 30% for the Phoenix-Mesa MSA and 26% for the state, while the national figure was 13%. Unemployment rates for the Phoenix-Mesa MSA

are typically below the national average. Seasonally adjusted unemployment rates for the Phoenix-Mesa MSA, Arizona, and the United States are listed below:

Comparative Unemployment Rates

	<u>June 2002</u>	<u>June 2001</u>
Phoenix-Mesa MSA.....	5.4%	3.7%
Arizona	6.0%	4.6%
United States.....	5.9%	4.6%

Source: State of Arizona Department of Economic Security.

Retail space vacancy rates have declined over the last ten years from 16.3% for 1990 to 5.3% for 2000. Vacancy rates rose to approximately 7% in 2001 due to mergers in the grocery industry and closures of some big-box retailers. The District anticipates that vacancy rates will continue to rise, peaking at approximately 9% within a year. Office vacancy rates dropped below 11% in 2000 from highs in the mid-twenty percent range in the early 1990s. The slowing economy raised office vacancy rates to approximately 20% in 2001. Rates are expected to rise by an additional one or two points in the coming year as new construction exceeds demand. In contrast to the relatively weak commercial sector, 2001 was a record year for residential housing permits. Construction activity is expected to decline but still remain healthy over the next several years as population growth (residential construction permits remain strong), along with related commercial businesses continues. Two sports stadiums (NFL and NHL) are in planning and early construction stages and highway construction continues.

The tourism industry was hit hard following the attacks of September 11, 2001, but the sector has recovered somewhat in recent months with hotel vacancy rates decreasing and airline load factors increasing. The local high-tech manufacturing industry was in recession even before the terrorist attacks. Although recent news on semiconductor shipments indicates that this sector may finally be reaching its cyclical bottom, full recovery is still months away. Despite weakness in the local economy, population growth continues. As the nation emerges from recession, the local economy should follow, resuming employment and income growth; however, the State's difficulties in meeting its budget and the drought being experienced in the Southwest may impede the progress of the recovery.

The Phoenix-Mesa MSA is home to several corporate headquarters: America West Holding Corporation (America West Airlines), ASARCO, AVNET, Best Western International, The Dial Corporation, Phelps Dodge, U-Haul, and Viad. In addition, American Express Company, The Prudential Insurance Company of America, State Farm Mutual, Sentry Insurance Co. and Southwest Airlines have regional offices in the Phoenix-Mesa MSA.

The District's customer growth and energy sales are driven by population growth, regional economic health and weather. As the local economy slows, immigration and new business creation will also slow. However, a diversified customer base helps shield the District from slowing in a particular sector. For the six-year planning horizon, customer growth is forecasted to slow to 3.2% annually from the 3.6% experienced over the last several years. This equates to a growth rate of approximately 27,000 customers annually, with most of the growth occurring in the residential and commercial classes.

See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses" herein.

Irrigation and Water Supply System

A historic and continuing justification of the Project lies in providing a stable and economic water supply. Agriculture in the plains and valleys of south-central Arizona almost wholly depends upon irrigation due to the low annual rainfall.

The major portion of the revenue of the District's Electric System is derived from within the boundary of the water service area of the Project. The Project provides the water supply for an area of approximately 248,200 acres located within the major portions of the Cities of Phoenix, Avondale, Glendale, Mesa, Tempe, Chandler, Gilbert, Peoria, Scottsdale and Tolleson.

The surface water supply for the water service area of the Project is runoff from a 13,000 square mile watershed and is stored in six reservoirs operated by the Association, four of which are located on the Salt River and two on the Verde River. Additional water is provided by the Association's deep-well pumps located within the boundaries of the Project's water service area.

The available water supply is important due to its influence on the economy in the area. Since the construction of the dam and reservoir system, the Project has always had a water supply sufficient to meet the demands for urban, industrial and agricultural uses within its boundaries. Although the last four years have seen below average water run-off into the Project's reservoirs, because of good water resource planning and management by the District and cities in the Phoenix metropolitan area, the District's management believes that there will be a sufficient water supply for the near term. In the long-term, under established water rights relating to water use and assuming a continuation of historical precipitation and usage patterns, the area within the Project water service boundaries has a dependable and assured water supply.

Water from underground sources is important in Arizona, and in periods of lower runoff on the watershed more groundwater must be pumped to meet demand. Due to well location, timing of demands, groundwater contamination, and pump maintenance requirements, delivery capability is limited to 325,000 to 400,000 acre-feet per year. Over the past 15 years, annual pumping has ranged from 44,500 acre-feet to 318,100 acre-feet. The Association has a contingency plan to manage demand in periods of water shortage, which includes increased pumping and reductions in water allocations. Due to the drought in the Southwest, the Association has reduced the allocation of water to its shareholders and to the valley cities by one-third for calendar year 2003.

The Association operates 250 wells under a federal permit issued by the U.S. Environmental Protection Agency ("EPA") pursuant to the permit program for the National Pollutant Discharge Elimination System. The permit restricts the use of wells having organic chemical contamination above the permit levels. The number of restricted wells may vary by two or three each year as the contamination plume moves away or new contamination is discovered. Currently, approximately 5% of the wells are not in operation for various reasons, including permit restrictions, and voluntary agreements to facilitate the study and remediation of contaminated groundwater in the area.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Jointly Owned Generation Facilities — Palo Verde Nuclear Generating Station," and "LITIGATION — Water Rights" for a discussion of additional matters relating to irrigation and water supply.

Telecommunication Facilities

The District has installed approximately 20,000 strand-miles of fiber cable to support communication activities for its water and electric utility operations. Approximately two-thirds of the available capacity in this system is surplus to its needs. The District has entered into an arrangement with Electric Lightwave, Inc. ("ELI") to market this excess capacity and has received approximately \$4 million per year in revenue from this activity. The District and ELI are discussing whether to continue their business relationship.

Because the District has an extensive electrical distribution system, it has numerous locations that are of interest to wireless telecommunication providers for transmitter sites. The

District has been actively pursuing this as a business opportunity and now has approximately 100 sites where transmitters or other telecommunication equipment have been located. These sites generate approximately \$4 to \$5 million per year in revenue.

Papago Park Center

Papago Park Center is a mixed-use commercial development located on land owned by the District adjacent to its administrative offices. The District accumulated this land over a number of years for use by the District. The District has constructed a 360,000 square foot facility in Papago Park Center, which is utilized principally by personnel and equipment in the information systems, planning, marketing and financial services departments of the District. The 2003 through 2008 Capital Improvement Program does not include funds for additional office buildings. The District has a long-range plan, which includes the private development of portions of Papago Park Center (the "Private Development Area").

The District has entered into a 100-year lease of a portion of the Private Development Area with Papago Park Center, Inc. ("PPCI"), a wholly-owned, incorporated, and taxable subsidiary of the District. Payments under the lease are related to the development and performance of the Private Development Area. Private development activity in the Private Development Area has steadily increased since 1996. Lease payments to the District were \$1.5 million and \$1.6 million in fiscal years 2002 and 2001, respectively.

New West Energy Corporation

In 1997, the District established a wholly-owned, taxable subsidiary, New West Energy Corporation ("New West Energy"), to market, at retail, energy available to the District that was surplus to the needs of its retail customers, and energy that might have been rendered surplus by retail competition in Arizona in the supply of generation. However, as a result of the turmoil in the California energy market, New West Energy has discontinued marketing excess energy, although it may resume this activity at some modest level in the future. It continues to provide energy-related services to various customers within and outside of the State of Arizona. One of the original purposes for forming New West Energy was to gain experience in a competitive market so that the District would be better prepared for competition in Arizona. New West Energy has achieved that goal. New West Energy has reduced its staff and now is supporting the District's energy services activities in Arizona.

New West Energy is subject to the same laws and regulations as similarly situated entities. Changes in laws and regulations related to implementation of retail competition in Arizona are referred to in "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Competition in Arizona" herein. The District's Board has authorized \$15 million in capital contributions to New West Energy, all of which has been funded. The financial statements of New West Energy and the District are consolidated. The District is authorized to issue guarantees on behalf of New West Energy in connection with certain sales up to an aggregate amount of \$70 million. No guarantees are in place as of this date. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — California Energy Crisis" and "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — District's Response to Utility Industry Developments — Energy Risk Management Program" herein.

THE ELECTRIC SYSTEM

Area Served

The District provides electrical service to major populated sections of Maricopa County, as well as portions of Pinal and Gila Counties. Except the City of Mesa, all of the cities within the District's service areas are served in part by the District and in part by Arizona Public Service Company ("APS"). By agreement between the District and APS, the urban areas and the adjacent suburban areas now served by the District's distribution system will continue to be so

served even though the latter may be annexed to a city in the future. The District also provides power directly for mining load requirements, principally in Pinal and Gila Counties.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Competition in Arizona" herein for a discussion of legislation permitting competition in generation service, billing, metering, and meter reading.

Projected Peak Loads and Resources

The District annually estimates its future sales of energy by taking into account customer growth, changes in customer usage patterns and historic, as well as projected, weather data. The resource portfolio is examined to determine the expected sources of power and energy that may be used to supply the estimated system requirements.

The projections in Table 2 represent the District's estimate of peak loads and resources for fiscal years 2003 through 2008. The projections reflected therein are consistent with industry-wide experience and provide the basis for the District's current year operating budget. However, they are based on certain assumptions that, if not realized, may adversely affect such projections.

The projections shown in Table 2 do not reflect any sales of excess capacity other than sales pursuant to existing agreements. The resources in excess of peak load are expected to be generally gas- and oil-fired resources, which are the District's most expensive resources to operate.

TABLE 2 — Projected Peak Loads and Resources (MW)

	<u>2003</u>	<u>2004</u>	<u>Fiscal Year Ending April 30,</u>		<u>2007</u>	<u>2008</u>
	<u>2005</u>	<u>2006</u>				
Annual Peak: (MW) (1) (2)						
Service Territory System						
Requirements (3) (4) (5)	5,300	5,500	5,720	5,940	6,170	6,400
Sales for Resale	390	395	402	409	417	45
Total Peak Load (6)	5,690	5,895	6,122	6,349	6,587	6,445
Resources:						
Hydroelectric (7)	263	263	263	263	263	263
Thermal						
Oil and/or Gas	1,515	1,515	1,515	2,065	2,065	2,340
Coal (8)	2,081	2,081	2,081	2,081	2,101	2,101
Nuclear	644	640	654	651	652	650
Solar and Renewables	7	7	7	7	7	7
Purchased:						
Federal Hydro Power (9)	234	234	234	234	234	234
Central Arizona Water Conservation						
District/Navajo Surplus	726	725	725	725	725	725
AEPCO — Arizona Electric Power						
Cooperative	100	100	100	100	100	100
TEP — Tucson Electric Power						
Company	100	100	100	100	100	100
Reliant Desert Basin	575	575	575	575	575	575
Other Existing	345	125	100	0	0	0
Other New	0	200	450	300	550	100
Total Resources	6,590	6,565	6,804	7,101	7,372	7,195
Total Resources in Excess of Total Peak						
Load	900	670	682	752	785	750
Planned Reserve Percentage (5) (10)	18.3%	12.6%	12.2%	12.7%	12.8%	12.4%

- (1) The forecasts were made in the fall of 2001, which was the beginning of the annual planning period.
- (2) The peak normally occurs in the June through September months (the beginning months of the fiscal year).
- (3) The non-discriminatory access language in the Electric Power Competition Act requires the District to be able to meet all distribution area loads under 100,000 kWh, even if some retail customers elect to be served by others. No District retail customers are currently being served by others.
- (4) Peak demand has been reduced by the cumulative impact of conservation programs that the District has sponsored for more than a decade.
- (5) Interruptible loads are not included in Service Territory System Requirements or in the reserves calculation because these loads are not expected to be on line during the peak.
- (6) The peak load value is the total peak load occurring coincident with the District's system peak energy requirements.
- (7) The District expects its Roosevelt hydroelectric generating resource to be unavailable during fiscal year 2003 due to low water levels, resulting in a 36MW reduction in hydroelectric resources not shown in the table.

- (8) The forecast reflects continued operation of the Mohave Generating Station. In the event of a shut down of Mohave, the District expects to obtain replacement power from other available sources. See "THE ELECTRIC SYSTEM — Existing and Future Resources — Mohave Generating Station" for a discussion of Mohave Generating Station issues.
- (9) A portion of federal hydro resources comes from the Colorado River Storage Project (CRSP). The CRSP resource will be reallocated as of October 1, 2004, resulting in a 7% reduction to CRSP recipients. The reallocation is not reflected in this table. The impact of the change is an 8 MW reduction in federal hydro resources beginning in fiscal year 2005.
- (10) Cannot be derived solely from the information set forth in Table 2.

Reserve Targets

The District plans the addition of new generation based on a 12% reserve target. Because of the restructuring of the electric utility industry and the significant financial exposure associated with carrying excess reserves, the District has decided that a 12% reserve target represents an optimal planning target that balances both economics and reliability. For fiscal year 2003, the District increased the 12% target to address current concerns about the adequacy of transmission and regional supply. For fiscal years 2004 and thereafter, the District's resources available for reserves are expected to meet the planned reserve target.

Existing and Future Resources

The District has various resources available to it that permit it to provide electricity in its service area. The resources include the generating facilities owned solely by the District, generating facilities in which the District has an ownership interest, and the District's ability to enter into agreements with others to purchase power.

Economic Viability of Existing Generation Assets. The existing generation assets have been and will continue to be an integral part of the District's long-term resource plans. These generating stations historically have achieved high availability and low forced outage rates as compared to industry averages. This performance can largely be attributed to prudent operational and maintenance practices. Sustaining and improving this performance will be achieved by continuing a focused effort on preventative, predictive and corrective maintenance activities. By combining these practices with the ongoing application of engineering and technology improvements the District will ensure that the future economic and operational value of existing assets is maintained.

Summary of Existing Power Sources during the fiscal year ended April 30, 2002. The District's largest source of energy during the fiscal year ended April 30, 2002 was thermal generating facilities, which supplied 58.7% of the District's total production. Hydroelectric generation provided 3.4% of production with 1.0% coming from the District's own hydroelectric plants and 2.4% coming from purchases from the Arizona Power Authority ("APA") and the United States Department of Energy, Western Area Power Administration ("WAPA"). The remaining 37.9% came from various other purchases. Table 3 provides more detail on District power sources.

TABLE 3 — Fiscal Year 2002 District Power Sources

	<u>Capability (MW) (1)</u>	<u>Net Production Amount (MWh) (2)</u>	<u>% of Total</u>
District Generation:			
One Hundred Percent Entitlement — Hydroelectric:			
Roosevelt Dam	36	61,249	0.2
Mormon Flat Dam	58	95,891	0.2
Horse Mesa Dam	126	191,637	0.5
Stewart Mountain Dam	13	33,697	0.1
Canal Plant (Crosscut)	3	4,729	0.0
Canal Plant (South Consolidated)	1	1,658	0.0
Subtotal	237	388,861	1.0
One Hundred Percent Entitlement — Thermal:			
Kyrene	106	117,788	0.3
Kyrene (Gas Turbine)	165	129,490	0.3
Agua Fria	407	1,194,648	3.1
Agua Fria (Gas Turbine)	219	282,100	0.7
Santan Combined Cycle	368	1,258,939	3.3
Coronado Generating Station	785	5,072,396	13.2
Transportable Combustion Turbine	5	6,216	0.0
Subtotal	2,055	8,061,577	20.9
One Hundred Percent Entitlement — Renewable:			
Solar	—(3)	624	0.0
Alternative Fuels-Tri-cities landfill	—(4)	15,139	0.0
Participation Entitlements — Thermal:			
Navajo Generating Station	489	4,032,848	10.5
Four Corners Generating Station Units 4 & 5.	148	1,001,491	2.6
Mohave Generating Station	140	1,418,005	3.7
Hayden Generating Station Unit No. 2.	131	1,019,544	2.6
Craig Generating Station Units 1 & 2.	248	1,981,725	5.1
Palo Verde Nuclear Generating Station	648	5,090,051	13.2
Subtotal	1,804	14,543,644	37.7
Purchases and Receipts(6):			
APA — Arizona Power Authority	74(6)	193,829	0.5
WAPA — Colorado River Storage Project	112(7)	535,738	1.4
WAPA — Parker-Davis Dams	32(8)	193,237	0.5
WAPA — CAWCD/Navajo Surplus	645(9)	2,306,169	6.0
AEPCO — Arizona Electric Power Cooperative	100	682,994	1.8
Reliant — Desert Basin Generation	—(10)	1,622,963	4.2
TEP — Tucson Electric Power Company	100	738,865	1.9
Others	1,491(11)	9,254,726	24.0
Subtotal	2,554	15,528,521	40.3
TOTAL(12)	6,650	38,538,386	100.0

(1) Load capability during summer system peak as reported to the Southwest Reserve Sharing Group. Winter capability may be greater.

- (2) Actual net production during the fiscal year ended April 30, 2002. Energy for pumped storage operation is not deducted.
- (3) Solar (photovoltaic) units have a combined, nominal capability of 375 kW.
- (4) Alternative fuels — Tri-Cities Landfill Generation was not in operation on the summer peak day.
- (5) Purchase and receipt capabilities vary month to month. Listed are the capabilities for the peak month.
- (6) Includes 34 MW wheeled for certain electrical/irrigation districts.
- (7) Includes 9 MW wheeled for certain electrical/irrigation districts.
- (8) 32 MW available from March through September and 23 MW available from October through February.
- (9) Net of the Central Arizona Water Conservation District ("CAWCD") pumping load and losses totaling 94 MW that occurred coincident with system peak.
- (10) Reliant Desert Basin Generation did not begin until November 2001, after system peak.
- (11) Short-term purchases.
- (12) Totals may not add correctly due to rounding.

Jointly Owned Generation Facilities. The District has an ownership interest in six generating facilities. The percent participation of the District and the other participants in these facilities is set forth in Table 4. Additional information about each facility follows Table 4.

TABLE 4 — District Participation Interests in Existing Generating Facilities(1)

	Navajo Generating Station	Four Corners Generating Station Units 4 & 5	Mohave Generating Station	Hayden Generating Station Unit 2	Craig Generating Station Units 1 & 2	Palo Verde Nuclear Generating Station
Project Capabilities						
Total Continuous Load Capabilities (MW)	2,250	1,570(2)	1,580(3)	262	856	3,810(4)
Project Participants						
District	21.7%	10.0%	20.0%(5)	50.0%	29.0%	17.5%
APS	14.0	15.0	—	—	—	29.1
Department of Water & Power, Los Angeles ("LADWP")	21.2	—	10.0(5)	—	—	5.7
El Paso Electric Co. ("El Paso")	—	7.0	—	—	—	15.8
Nevada Power Company ("NPC")	11.3	—	14.0	—	—	—
Platte River Power Authority	—	—	—	—	18.0	—
PacifiCorp.	—	—	—	12.6	19.3	—
Public Service Company of Colorado ("PSCo")	—	—	—	37.4	9.7	—
Public Service Company of New Mexico ("PNM")	—	13.0	—	—	—	10.2
Southern California Edison Co ("SCE") ...	—	48.0	56.0	—	—	15.8
Southern California Public Power Authority ("SCPPA")	—	—	—	—	—	5.9
Tri-State Generation and Transmission Association, Inc. ("Tri-State")	—	—	—	—	24.0	—
Tucson Electric Power Company ("TEP")	7.5	7.0	—	—	—	—
U.S. Bureau of Reclamation ("USBR")	24.3(6)	—	—	—	—	—
Total Percentage	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

- (1) Generally, if a default by any participant in the payment or performance of an obligation under a participation agreement continues without having been cured or without the participant having commenced and continued to cure the default, then the non-defaulting participants may suspend the right of the defaulting participant to receive its capacity entitlement. In case of default, (a) each non-defaulting participant will bear a portion of the operation and maintenance costs otherwise payable by the defaulting participant in the ratio of the non-defaulting participant's respective capacity entitlement to the total capacity entitlement of all non-defaulting participants, and (b) the defaulting participant will be liable to the non-defaulting participants for all costs incurred by the non-defaulting participants pursuant to (a) and for all costs in operating the project at a reduced level of generation brought about by the reduction of the capacity entitlement of the defaulting participant.

USBR's participation interest in the Navajo Generating Station is not subject to these suspension procedures, but USBR is obligated to bear its proportionate share of the operation and maintenance costs of any defaulting participant in the Navajo Generating Station. Currently there are no defaulting participants.

- (2) Amount shown is maximum capability. Normal continuous load capability is 1,480 MW.
- (3) Amount shown is maximum capability. Normal continuous load capability is 1,400 MW.
- (4) Amount shown is maximum capability. Normal continuous load capability is 3,666 MW.
- (5) The District, on November 30, 2001, acquired half (10%) of LADWP's share of Mohave increasing its ownership share to 20%.
- (6) The District holds legal title to this percentage of the Navajo Generating Station for the use and benefit of USBR.

Navajo Generating Station. The Navajo Generating Station ("NGS"), located on the Navajo Indian Reservation near Page in Northern Arizona, consists of three 750 MW coal-fired, steam-electric generating units. The units commenced commercial operations in 1974, 1975 and 1976, respectively. The facility also includes an electric railroad for fuel delivery and 500 kV transmission lines and switching stations to deliver the power and energy to the various participants. The District owns 21.7% of NGS and is the operating agent of the generating station and the railroad. The NGS coal supply is surface-mined and delivered from the Kayenta Mine, which is located on the Navajo and Hopi Indian Reservations in Northern Arizona.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" for a discussion of environmental considerations with respect to NGS, and administration of federal environmental laws by Indian tribes.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply — Coal, Oil and Natural Gas," and "LITIGATION — Coal Supply" for discussions relating to the NGS coal supply, and "LITIGATION — Environmental Issues" for a discussion of certain Navajo environmental laws.

Hayden Generating Station Unit 2. The District owns 50% of Hayden Generating Station Unit 2, a 262 MW coal-fired generating unit, which commenced operations in 1976 and is located in Hayden, Colorado. Public Service Company of Colorado ("PSCo") is the operating agent. PSCo is now a unit of Xcel Energy, which resulted from the merger of Northern States Power and New Century Energy, the previous parent of PSCo. The District's entitlement to power and energy from Hayden Generating Station Unit 2, like the power and energy from the Four Corners Generating Station Units 4 & 5 and Craig Generating Station Units 1 & 2, is subject to a displacement arrangement with WAPA.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply — Coal, Oil and Natural Gas" for comments relating to the coal supply for the Hayden Generating Station Unit 2.

Four Corners Generating Station Units 4 & 5. The Four Corners Generating Station Units 4 & 5, operated by APS, are located on the Navajo Indian Reservation near Shiprock, New Mexico. The District owns 10% of Units 4 and 5, two 785 MW (maximum capability) coal-fired generating units, which commenced operations in 1969 and 1970, respectively. Coal comes from area mines located on the Navajo Indian Reservation.

The District's entitlement to power and energy from the Four Corners Generating Station Units 4 & 5, like power and energy from Hayden Generating Station Unit 2 and Craig Generating Station Units 1 & 2, is delivered to WAPA and used for WAPA's customers located in Colorado, New Mexico, Utah and Wyoming. WAPA delivers a similar amount of power and energy to the District from the Glen Canyon Hydroelectric Generating Station. This is a displacement

arrangement that reduces transmission investment, operating expenses and energy losses both for WAPA and for the District.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply — Coal, Oil and Natural Gas" for comments relating to the coal supply for the Four Corners Generating Station Units 4 & 5.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" for a discussion of administration of federal environmental laws by Indian tribes.

See "LITIGATION — Environmental Issues" for a discussion of certain Navajo environmental laws.

Mohave Generating Station. The District owns 20% of Mohave, which is operated by SCE and which consists of two 790 MW coal-fired units. Mohave commenced operations in 1971 and is located in Clark County, Nevada, on the Colorado River. Fuel is supplied by a slurry pipeline from a mine located on the Navajo and Hopi Indian Reservations in Northern Arizona.

In 1999, the Mohave Participants entered into a settlement with the Sierra Club that requires the installation of pollution abatement equipment by the end of 2005 if the plant will continue to be operated with coal. In addition, the Hopi Tribe has demanded that pumping water for the slurry pipeline cease by the end of 2005. The Mohave Participants have refused to commit to install pollution abatement equipment without reasonable assurance that water will be available to deliver coal to the plant; therefore, because of the time required to order and install the pollution abatement equipment, the plant will likely cease operations at the end of 2005 for some period of time. The District has included the costs of such equipment in its Capital Improvement Program. The District believes that it will be able to replace the energy from Mohave from other sources. Although the Mohave Participants and the Tribe are working diligently to reach a settlement, it is not certain if, and when, a resolution will be reached. If a settlement is not reached, the District believes that the site can continue as a generation source with an alternative fuel and options for such are under review.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply — Coal, Oil and Natural Gas" and "LITIGATION — Coal Supply" for a discussion of matters relating to the coal supply for Mohave.

Craig Generating Station Units 1 & 2. The District owns 29% of Craig Generating Station Units 1 & 2, which are operated by Tri-State. The two 428 MW coal-fired generating units commenced operations in 1981 and 1979, respectively. The Craig Generating Station Units 1 & 2 are located in the Yampa Valley near the City of Craig in northwestern Colorado. The District's entitlement to power and energy from Craig Generating Station Units 1 & 2, like the power and energy from Four Corners Generating Station Units 4 & 5 and Hayden Generating Station Unit 2, is subject to a displacement arrangement with WAPA.

Palo Verde Nuclear Generating Station. The District owns 17.49% of the Palo Verde Nuclear Generating Station ("PVNGS"), located near Wintersburg, Arizona, which consists of three approximately 1,270 MW pressurized water nuclear generating units. APS is the project manager and operating agent. The District declared Units 1, 2 and 3 in commercial operation in 1986, 1986, and 1988, respectively.

The participants believe it is cost-effective to replace the steam generators in Unit 2 in 2003 and have approved their purchase and installation. The District has included its share of such costs, estimated at approximately \$35 million, in its Capital Improvement Program. APS has advised the participants that it is uncertain that the steam generators in Units 1 and 3 could continue to operate through their licensed life due to increasing degradation from corrosion. The participants are evaluating APS' proposal to replace the steam generators and the economics of

the timing of the replacements. The District has included approximately \$70 million for the replacements in its Capital Improvement Program.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Nuclear Plant Matters" for a discussion of liability issues.

Purchased Power. The District supplies a portion of its energy and demand requirements with purchased power from several sources as shown in Table 3. In fiscal year 2002, approximately 16.3% of the District's energy requirements were met with long-term power purchases. An additional 24.0% was met with short-term purchases by contracts of at least one-month duration.

The District has multiple long-term contracts to purchase WAPA power. A total of 916 MW peak capacity is expected to be available under various contracts with APA, CRSP, the Parker-Davis Project, and CAWCD. The expiration dates of these contracts span the period from September 30, 2008 to September 30, 2024.

The District has long-term power purchase contracts with AEPCO and TEP. Each contract provides for the District to purchase 100 MW of firm power. The expiration dates of these contracts are in fiscal years 2011 and 2012, respectively.

The District has entered into a ten-year contract with Reliant Energy Desert Basin, LLC ("Reliant") for the long-term purchase of 575 MW of capacity produced at Reliant's Desert Basin Generating Station located in Central Arizona. The District has contracted for the right to match any offer Reliant may receive for a long-term sale for periods beyond the ten-year term.

See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses — Contractual Obligations Relating to Bonds of Other Political Subdivisions" herein.

See "LITIGATION — Gas Supply" for a discussion of fuel supply issues.

Future Resources. The District reviews options for obtaining reliable resources at the lowest possible cost. In addition to the options described below, the District also pursues short-term and long-term purchases, refinements to its conservation programs, building its own new generation, acquiring existing generation facilities and ventures with other plant developers to acquire the output from other plants being constructed. Since Arizona and many other western states have either deferred or reexamined implementation of deregulation of the electric industry, some merchant generators are seeking buyers for sales of power from, or purchases of, their plants, both in operation or under construction. The District continues to evaluate these developments, including the possibility of acquiring an existing generation plant.

Kyrene Generating Station. The District has completed construction of a 250 MW natural gas-fired power plant at its existing Kyrene Generating Station. The plant began commercial operation in October 2002.

Santan Generating Station. The ACC approved a certificate of environmental compatibility ("CEC") for a proposed 825 MW expansion of the District's Santan Generating Station in the Town of Gilbert, scheduled for operation in fiscal year 2006. The District still needs to obtain an air quality permit from Maricopa County, a wastewater discharge permit from the Arizona Department of Environmental Quality under the Clean Water Act and an aquifer protection permit under the Arizona Aquifer Protection Program. The District does not anticipate any delays in obtaining these permits.

Springerville Generating Station. The District has entered into an agreement with UniSource Energy Development Company ("UniSource") for the joint development of two additional coal-fired generating units, approximately 400 MW each in size, to be located at the existing Springerville (Arizona) Generating Station. The units would be operated by UniSource's affiliate,

TEP. Construction of the units is subject to numerous conditions and no assurance can be given that such conditions will be satisfied. Among other things, the parties are still exploring various options for the timing, financing and ownership of the two units.

Transmission. Electricity from the District's diversified generation resource mix is delivered to customers over a complex and reliable transmission system, which is integrated into the grid that connects transmission lines in the West. The District owns transmission systems that deliver electricity from its generating resources to its loads. However, when it was not prudent to build a new transmission system, the District has acquired contract rights on transmission systems owned by others. In addition to utilizing its transmission system to deliver electricity from its generating resources, the District uses its transmission system to access generation resources produced by others when the District's load is greater than its resource capability, to sell excess electricity, and to transmit energy for others when surplus transmission capacity is available.

The District is working with other utilities in Arizona, New Mexico, Colorado, Wyoming and Texas to develop a regional transmission organization ("RTO") known as WestConnect RTO, LLC ("WestConnect"). WestConnect made a filing with the Federal Energy Regulatory Commission ("FERC") on October 16, 2001 for approval. On October 10, 2002, FERC issued an order approving most of the elements of the WestConnect proposal, but requiring some modifications and further explanations of certain provisions. The District is unable to predict the outcome of these efforts.

In 2001, the District and other Arizona utilities initiated a regional transmission study known as CATS (Central Arizona Transmission System) to evaluate the mid and long-term high voltage transmission facility needs in central Arizona. The first phase of study work was completed in April 2001, and the second phase of study work, evaluating the most promising transmission options, was completed in June 2002. The District is involved in specific projects resulting from the first phase of study, and the District plans to initiate the licensing process on those transmission projects that provide direct benefits to the District's customers.

Fuel Supply. The District's projected use of fuel and other energy sources by type is shown on the following table, which summarizes the District's various sources of energy assuming the most efficient utilization of the facilities expected to be available for the dates indicated.

**TABLE 5 — Summary of Projected Energy Sources
(expressed as a percentage of total sources)**

<u>Fiscal Year Ending April 30,</u>	<u>Hydro(1)</u>	<u>Gas/Oil</u>	<u>Coal</u>	<u>Nuclear</u>	<u>Renewables</u>	<u>Long Term Purchases</u>	<u>Other Purchases</u>
2003	5.2%	4.5%	47.4%	16.4%	0.1%	13.9%	12.6%
2004	5.2%	5.1%	49.2%	16.0%	0.1%	14.9%	9.5%
2005	4.9%	7.5%	46.5%	15.8%	0.1%	15.1%	10.0%
2006	4.6%	12.2%	44.6%	14.9%	0.1%	15.3%	8.4%
2007	4.5%	12.4%	45.6%	14.4%	0.1%	14.6%	8.4%
2008	4.3%	15.8%	43.4%	13.7%	0.1%	15.5%	7.2%

(1) Includes hydro purchases.

Coal, Oil and Natural Gas. Hayden Generating Station Unit 2, NGS, Four Corners Generating Station Units 4 & 5, Mohave, and Craig Generating Station Units 1 & 2 are coal-fired generating units. The coal supply contract for the Four Corners Generating Station expires at the end of 2004; for Mohave at the end of 2005, for NGS in 2011, and for Hayden at the end of 2011. The two coal supply contracts for Craig expire July 1, 2014 and December 31, 2017, respectively. The District believes it will be able to obtain coal from these or other sources for the remainder of the

operational life of each plant. Approximately 20% of the coal requirements for Units 1 & 2 of the Craig Generating Station are purchased periodically through the spot market.

The Coronado Generating Station ("CGS") is also coal-fired. There are four coal supply agreements for the station. The first agreement extends until December 31, 2006 and provides 43% of the annual coal requirements for both Units 1 and 2. The second agreement provides for 14% of the coal requirements of CGS for 2002. The third agreement is for 18% of the requirements in 2002 and 40% of the requirements in 2003 and 2004. The other agreement supplies the remaining requirements for calendar year 2002. The District is assessing further coal supply options for the future, including the potential to develop coal reserves at a location known as Fence Lake in northwest New Mexico. The District has recently received a Federal Mining Plan Approval from the U.S. Department of the Interior for Fence Lake; however, no decision has been made to proceed with this development. The District believes it can continue to meet the coal requirements for CGS.

The current stockpile sizes for all coal generating stations are at or above acceptable levels for normal operations.

There are disputes concerning the coal supply agreements at the Navajo, Mohave, and Four Corners Generating Stations. The District does not believe that these disputes will have material adverse effects on its operations or financial condition. However, final resolution of any of these disputes cannot be predicted at this time. See "LITIGATION — Coal Supply" for additional discussion of coal supply litigation or arbitration.

The District utilizes natural gas almost exclusively to fuel its oil or gas-fired units in the Phoenix-Mesa MSA and plans to continue to do so as long as gas remains available at costs that are economically favorable over other alternatives. The District purchases natural gas pursuant to energy risk management policies and trading strategies. These policies and strategies are designed to minimize price, credit and operational risk while ensuring that gas is available in sufficient quantity to meet demands of the retail and wholesale electricity customers of the District.

Natural gas price hedging is primarily accomplished through the use of financial instruments such as exchange-traded futures and options contracts and "over the counter" swaps and options contracts. Hedging activities focus on a rolling two to three year period into the future relative to the District's retail customer demand. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — District's Response to Utility Industry Developments — Energy Risk Management Program" herein, for a discussion of the District's Risk Management Program.

Natural gas is purchased on the forward and spot markets. Natural gas storage contracts are utilized to balance supply and demand as well as help manage price risk and ensure reliable delivery. Gas is delivered to the District's generating facilities via a full requirements transportation contract with El Paso Natural Gas Company ("El Paso"). See "LITIGATION — Natural Gas Supply" for matters relating to natural gas contracts.

Nuclear. The nuclear fuel cycle for PVNGS is comprised of the following stages: the mining and milling of uranium ore to produce uranium concentrates; the conversion of uranium concentrates to uranium hexafluoride; the enrichment of uranium hexafluoride; the fabrication of fuel assemblies; the utilization of fuel assemblies in reactors; and the storage and disposal of spent fuel. APS, on behalf of the Palo Verde Participants (APS, the District, EPE, SCE, PNM, SCPPA, and LADWP), has procured under contract 100% of the materials and services required to provide uranium concentrates through the year 2008, 100% of the requirements for conversion services through 2008, 100% of the requirements for enrichment services through 2010, and 100% of the requirements for fabrication services through the year 2016. These amounts are qualified in 2003 and 2004 for uranium ore and 2004 for conversion service due to strategic fuel design changes to allow a more efficient change to using enriched uranium product. The District

expects the shortages to be filled by January 1, 2003. Availability of all fuel services are generally good and APS anticipates securing additional fuel services when economic to do so.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Nuclear Plant Matters" herein, which includes further discussion on spent nuclear fuel.

Insurance and Liability Matters

The liability exposure of electric utilities has generally increased over time as the diversity and number of claims and resulting awards have increased. Electric utility insurance needs have increased accordingly in the areas of coverage and policy limits. In general, over the long-term, the commercial insurance market has not satisfied these increased needs. The commercial insurance market is highly cyclical, with cycles characterized by periods of increasing limits and coverage with lower deductibles, followed by periods of coverage and limit restrictions, higher deductibles and, in some cases, non-renewals or cancellations. As a result, several industry mutual companies have been formed to serve the coverage and limit requirements of the industry, and the District has placed a majority of its liability and directors and officers insurance with such mutual carriers to ensure long-term stability of its insurance programs. The District does continue to place some liability coverages in the commercial market.

Insurance for boiler and machinery and property risks in the past was obtained primarily from the commercial market. Coverage and limits the District requires have been adequate, although insurer competition in this market has been declining due to increasing utility loss experience, consolidation of insurers and declining investment income. These factors, as well as losses in connection with the destruction of the World Trade Center, have resulted in higher premiums and deductibles and restricted limits and coverage. The District intends to continue the use of commercial carriers to insure machinery and property risks and to expand the use of industry mutual insurance companies to the extent adequate capacity is available.

In response to the tragic events at the World Trade Center in New York on September 11, 2001, the District has placed its operations on highest alert and has taken security measures beyond those normally in effect to protect its Electric System and other assets.

Environmental Matters

General. The District's policy is to conduct its operations in compliance with all applicable federal, state, tribal, and local laws, regulations, and rules relating to the environment.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" below for a discussion of administration of federal environmental laws by Indian tribes.

Waste Management. Many normal activities in connection with the operation of the Project generate hazardous and non-hazardous wastes. Federal, state, and local laws and regulations governing waste management impose strict liability for cleanup costs and damages resulting from hazardous substance release or contamination, regardless of time or location, on those who generate, transport, store, treat, or dispose of hazardous wastes. At any given time, various Project facilities may be subject to inspection by federal, state, or local regulatory authorities to determine compliance with laws and regulations pertaining to hazardous and non-hazardous waste management, and Project facilities may be included in studies of contaminated sites by federal and state regulatory authorities. The District has established a plan for managing hazardous waste to ensure compliance with applicable laws and regulations, and independently assesses Project facilities to determine whether there is any contamination resulting from its activities. From time to time the District and the Association receive inquiries from regulatory authorities about the status of various contaminants at the District's facilities, and respond as appropriate.

Water Quality. Arizona has an extensive regulatory system governing water quality, including a permit program for discharges that could affect groundwater, and a superfund program to clean up groundwater contamination. Eight state superfund sites have been established within the greater Phoenix metropolitan area. Preliminary reports have identified District facilities as possible sources of contamination for some of these areas. The impacts, in terms of cost and operational problems, to the District of the reports or laws and regulations pertaining to water quality cannot be quantified at this time.

See "THE DISTRICT — Irrigation and Water Supply System" above for a discussion of well remediation activities.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" below for a discussion of administration of federal environmental laws by Indian tribes.

Air Quality. In common with other electric utilities and industries, the District is subject to federal, state, and local standards to control air quality. These standards substantially increase the cost of, and add to the difficulty of siting, constructing, and operating electric generating units. At the locations of the principal generating units now in operation, the relatively high quality of the air and proximity to large national parks, monuments, wilderness areas and Indian reservations may subject the District to particularly stringent control standards. Visibility issues may also impact operations at District facilities and are being closely monitored by the District. The full significance of air quality standards to the District in terms of cost and operational problems is difficult to predict, but it is possible that costly equipment will have to be added to units now in operation. In addition, permit fees may increase significantly.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" below for a discussion of administration of federal environmental laws by Indian tribes.

Navajo Generating Station and Four Corners Generating Station Units 4 & 5. Certain environmental laws, including the Clean Air Act (the "CAA"), the Clean Water Act, and the Safe Drinking Water Act, contain provisions pursuant to which Indian tribes may be treated as states for purposes of administering programs under those acts. The EPA has issued rules for approval of various tribal programs, which allow a tribe to seek approval to regulate all lands within the exterior boundaries of the tribe's reservation. The Navajo Nation has obtained EPA approval to administer programs under some of these laws. The EPA has not included NGS or the Four Corners Generating Station in the lands covered by approved tribal programs because of a dispute over the effect of covenants, in the leases between the Navajo Nation and the plants, which state that the Navajo Nation will not regulate the plants. EPA has published a notice in the Federal Register stating that it will give the plants notice and an opportunity to be heard if the Navajo Nation requests authority to regulate either of the plants. The Arizona Department of Environmental Quality has advised the District and APS that it is no longer regulating environmental matters relating respectively to NGS and the Four Corners Generating Station since the two plants are located on the Navajo Indian Reservation. NGS and the Four Corners Generating Station are regulated by EPA Region IX in San Francisco, California, and comply with applicable federal regulations.

See "LITIGATION — Environmental Issues — Navajo Environmental Laws" for a discussion of related lawsuits.

Craig Generating Station Units 1 & 2. In 1996, the Sierra Club served each of the five participants in the Craig Generating Station with a complaint pursuant to section 304 of the Federal CAA, alleging among other things, violations of opacity standards by Craig Units 1 and 2. After extensive negotiations, the parties agreed to a settlement, which was approved by the court on March 19, 2001. Under the terms of the settlement, the participants must install fabric filter

baghouses, scrubber improvements and other equipment on Craig Units 1 and 2 by December 31, 2003 and June 30, 2004, respectively. Capital costs are estimated at \$123 million, of which the District's share would be \$35.6 million. Costs of the upgrades to comply with the settlement have been included in the District's Capital Improvement Program.

ELECTRIC PRICES

Under Arizona law, the District's publicly elected Board has the authority to establish electric prices. While the Articles of Incorporation of the Association provide that the Secretary of the Interior may revise electric prices, the Secretary of the Interior has never requested any revision of the District's electric prices. The District is required to follow certain procedures for public notice and a special Board meeting before implementing any changes in the standard electric price plans.

The District is a summer peaking utility and for many years has made an effort to balance the summer-winter load relationships through seasonal price differentials. In addition, the District prices on a time-of-day basis for large commercial and industrial, and certain residential and small commercial, users.

In 1998, the District reduced overall standard electric rate schedules ("retail prices") for residential, commercial, pumping and industrial customers by an average 5.4%. During this price process, the District complied with the requirements of the Electric Power Competition Act, enacted by the Arizona Legislature in 1998 (the "Competition Act"), related to retail electric prices. The District unbundled all retail price plans, established a competitive transition charge ("CTC") and, with the 5.4% average decrease in retail prices, complied with the requirement to reduce the price for bundled service for electric retail customers by at least 10% over a ten-year period. The Competition Act capped the price plans during the CTC collection period at the price levels in effect on December 30, 1998. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Competition in Arizona" and "— District's Response to Utility Industry Developments" for further discussion of the Competition Act.

On May 15, 2000, the District further reduced overall retail prices by another 1.0%. The District continued to prepare for competition through this price process by further aligning unbundled electric prices with costs; introducing differentiated meter charges; adding additional incentives for peak shifting through the Time-of-Use price signal for residential customers; introducing new interruptible and market price options for business customers; and increased substation ownership and maintenance options for customers served through dedicated substations.

On November 26, 2001, the District completed a review of its price plans and riders and the level of its CTC associated with stranded cost recovery. The District elected to retain the CTC at its existing level until June 1, 2004 and approved a Fuel and Purchase Power Adjustment Mechanism ("FPPAM") that became effective May 1, 2002. On October 17, 2002, the District approved implementation of an adjustment pursuant to the FPPAM effective November 1, 2002. The adjustment results in an average annual increase in retail customer bills of 2.8%. Other changes to the District's price plans and riders became effective December 31, 2001. The District's management is studying the possible need for a future price increase.

CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program is a moving six-year forecast of all District construction expenditures, and is subject to change from time to time for several reasons, including changes in construction costs, projects being added, deleted, deferred or completed and changes in the period covered by the forecast.

The 2003 through 2008 Capital Improvement Program totals \$3,052 million. Of this total, \$2,812 million is for construction (including contingencies), \$86.6 million is for capitalized administrative and general expenses, \$87.5 million is for capitalized voluntary contributions in lieu of taxes, and \$66.0 million is for capitalized interest. In the past, the District has paid a portion of the cost of the Capital Improvement Program from internally generated funds and a portion from the proceeds of Revenue Bonds. The District anticipates funding approximately 55% of the 2003 through 2008 Capital Improvement Program from internally generated funds. The remainder is anticipated to be funded by Revenue Bonds, other forms of indebtedness and third party contributions.

The Capital Improvement Program is being driven by the need to expand the generation, transmission and distribution systems of the District in order to meet growing customer electricity needs and to maintain a satisfactory level of service reliability. Of the \$3 billion Capital Improvement Program, slightly less than \$1 billion is directed to generating projects. These include the expansion of the Kyrene and Santan Generating Stations. Slightly less than \$1 billion is planned for expansion of the electrical distribution system to meet new growth and to replace aging underground cable. The addition of new 69kV transmission facilities and the construction of a new high voltage transmission line account for \$125 million of the planned expenditures for transmission.

To provide for uncertainties in construction costs (including possible schedule changes, and other factors that may affect construction costs) and to provide a scope allowance for projects that may be needed in the future but are not yet identified, the District has included a general contingency allowance in the 2003 through 2008 Capital Improvement Program in addition to specific contingency allowances provided for major construction projects. No assurance is given that the estimated costs and contingency allowance will be adequate for their purposes.

Table 6 summarizes the District's 2003 through 2008 Capital Improvement Program.

**TABLE 6 — 2003 through 2008 Capital Improvement Program
(\$000)**

	<u>2003</u>	<u>2004</u>	<u>Fiscal Year Ended April 30,</u>		<u>2007</u>	<u>2008</u>	<u>Total</u>
			<u>2005</u>	<u>2006</u>			<u>2003-08</u>
Electric Construction:							
Generation	\$188,790	\$254,400	\$154,610	\$ 67,270	\$145,000	\$129,690	\$ 939,760
Transmission	58,490	37,900	28,480	26,130	23,020	28,550	202,570
Distribution	155,880	145,950	159,830	163,890	176,080	177,420	979,050
Retail Sales and							
Services	15,420	15,860	12,630	11,180	10,470	10,600	76,160
Operational Support	<u>36,910</u>	<u>26,510</u>	<u>21,300</u>	<u>23,500</u>	<u>23,570</u>	<u>25,180</u>	<u>156,970</u>
Subtotal —							
Electric							
Construction...	455,490	480,620	376,850	291,970	378,140	371,440	2,354,510
Contingency							
Allowance &							
Risk Portfolio	<u>39,210</u>	<u>41,110</u>	<u>70,520</u>	<u>90,910</u>	<u>89,130</u>	<u>126,950</u>	<u>457,830</u>
Subtotal	494,700	521,730	447,370	382,880	467,270	498,390	2,812,340
Capitalized							
administrative							
and General							
expenses	13,760	14,020	14,270	14,560	14,850	15,160	86,620
Capitalized							
voluntary							
contributions	14,030	14,320	14,450	14,730	14,970	14,970	87,470
Capitalized interest	<u>13,965</u>	<u>10,912</u>	<u>10,676</u>	<u>9,783</u>	<u>10,521</u>	<u>10,104</u>	<u>65,961</u>
Total (1)	<u>\$536,455</u>	<u>\$560,982</u>	<u>\$486,766</u>	<u>\$421,953</u>	<u>\$507,611</u>	<u>\$538,624</u>	<u>\$3,052,391</u>

(1) Totals may not exactly equal the sum of the above entries due to rounding.

SELECTED OPERATIONAL AND FINANCIAL DATA

Customers, Sales, Revenues and Expenses

Classification of Customers. The District has a diversified customer base. No one customer represents more than 2.9% of operating revenues. The classifications of the District's electric customers are shown in Table 7.

TABLE 7 — 2002 Customer Accounts, Sales, and Revenues
Fiscal Year Ended April 30, 2002

	Customer Accounts At April 30, 2002	Total Sales (GWh)	%	Sales Revenue (\$000)	%
Residential	700,010	10,561	28.9	\$ 775,426	36.0
Commercial and Small Industrial ...	62,681	8,302	22.7	519,148	24.0
Large Industrial	22	1,890	5.2	81,297	3.7
Mines	21	1,392	3.8	51,858	2.4
Pumps	344	67	0.2	4,091	0.2
Street Lights	7,929	168	0.5	16,745	0.8
Municipal	1,731	422	1.1	23,992	1.1
Affiliated Retail (1)	0	0	0.0	1,135	0.1
Interdepartmental	1	151	0.4	8,624	0.4
Subtotal/Retail	<u>772,739</u>	<u>22,953</u>	<u>62.8</u>	<u>\$1,482,316</u>	<u>68.7</u>
Electric					
Utilities/Wholesale	<u>52</u>	<u>13,581</u>	<u>37.2</u>	<u>673,981</u>	<u>31.3</u>
Total	<u>772,791</u>	<u>36,534</u>	<u>100.0</u>	<u>\$2,156,297</u>	<u>100.0</u>

(1) Affiliated Retail Sales Revenues in fiscal year 2002 reflect the recovery of a prior year write-off for New West Energy.

As has been historically the case, the residential group of customers accounted for the largest energy consumption. With 700,010 customers at April 30, 2002, this group serves as a solid base, bringing in nearly half of total retail electric revenues. The District forecasts an average increase of over 27,000 residential customers each year over the period from 2003 through 2008 as discussed herein.

The second largest retail customer classification is the commercial and small industrial group; these customers numbered 62,681 at April 30, 2002 against 59,700 twelve months earlier. The commercial and small industrial group represents a highly diverse customer base, which includes businesses such as newspapers, dentists, cosmetics, fast food, repair shops, schools, apartments, and grocery stores.

In 1995, the District implemented a Full Electric Service Requirements Rider ("FESR") for its large industrial and mine customers. The FESR provides a 3% discount for customers who signed an agreement to buy all energy requirements from the District for a period of five or six years. In 2000, the District approved (i) an extension of the FESR agreements through December 31, 2001, and (ii) the conversion of the discount such that the discount applies only to the competitive energy portion of the bill. In November 2001, the District approved a further extension of the FESR agreements. Customers, at their option, elected 3-year or 4-year FESR extension terms that will be in effect through December 31, 2004 or December 31, 2005, respectively. Substantially all of the District's largest customers are served under FESR agreements.

The remaining customer categories span a wide range of customers and industries, which include manufacturers, government contractors, gas and chemical producers, agricultural interests, and municipalities.

Historical Operating Statistics. The following table shows certain historical operating statistics of the District for the five years ending April 30, 2002.

TABLE 8 — Historical Operating Statistics

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
SERVICE:					
Total Customers at Year-End	671,096	701,196	727,070	746,368	772,791
Total Sales (million kWh)	26,202	31,615	32,801	36,323	36,534
Average Revenue per kWh (cents)	5.76	5.31	5.35	8.21	5.90
District Only: (excludes sales for resale and affiliated retail)					
Sales (millions kWh)	19,786	19,944	21,075	22,643	22,952
Increase in Sales (%)	5.1	0.8	5.7	7.4	1.4
TOTAL OPERATING REVENUES					
(000's omitted):(1)	<u>\$1,529,285</u>	<u>\$1,704,604</u>	<u>\$1,790,415</u>	<u>\$3,020,348</u>	<u>\$2,217,640</u>
OPERATING EXPENSES					
(000's omitted):					
Power Operations(2)	\$ 630,970	\$ 761,936	\$ 847,621	\$1,636,184	\$1,312,210
Operating and Maintenance(3)	178,126	222,925	195,800	361,198	220,496
Sales and Payroll Taxes	17,729	17,878	21,115	20,225	19,689
Ad Valorem Taxes(4)	<u>2,882</u>	<u>2,885</u>	<u>4,959</u>	<u>4,475</u>	<u>5,220</u>
Total Operating Expenses	<u>\$ 829,707</u>	<u>\$1,005,624</u>	<u>\$1,069,495</u>	<u>\$2,022,082</u>	<u>\$1,557,615</u>
NET OPERATING REVENUES	<u>\$ 699,578</u>	<u>\$ 698,980</u>	<u>\$ 720,920</u>	<u>\$ 998,266</u>	<u>\$ 660,025</u>
VOLUNTARY CONTRIBUTIONS					
IN LIEU OF TAXES					
(000's omitted):(5)					
Expensed	\$ 71,357	\$ 69,890	\$ 64,849	\$ 56,048	\$ 59,617
Capitalized	<u>1,325</u>	<u>901</u>	<u>33</u>	<u>201</u>	<u>299</u>
Total(6)	<u>\$ 72,682</u>	<u>\$ 70,791</u>	<u>\$ 64,882</u>	<u>\$ 56,249</u>	<u>\$ 59,916</u>
OTHER STATISTICS:					
Annual Peak (MW):					
System Requirements	4,244	4,666	4,657	5,002	5,164
Total Peak Load(6)	5,086	5,534	5,725	6,205	6,350
System Load Factor (%) (7)	54.4	50.2	53.6	52.9	52.0
Residential Statistics:					
Fiscal Year-End Residential Customers	609,401	635,652	659,324	676,673	700,010
Annual Sales (million kWh)	8,559	8,574	9,105	10,211	10,561
Average Annual Usage (kWh)	14,323	13,840	14,071	15,299	15,295
Average Sales Price per kWh (cents)	7.91	7.85	7.55	7.33	7.34

(1) Includes inter-company sales and other electric revenue.

(2) Excludes charges for water for power, depreciation on generation and railroad facilities, ad valorem taxes and voluntary contributions in lieu of taxes on railroad facilities.

(3) Excludes depreciation on transmission, distribution and general plant.

(4) Applies to out-of-state properties owned by the District.

(5) See "Customers, Sales, Revenues and Expense — Voluntary Contributions in Lieu of Taxes."

(6) Includes sales for resale, remote losses and interruptible load transactions.

- (7) System load factor is the ratio of system energy requirements in kWh to the product of the system requirements times the number of hours in a year. These percentages reflect in major part the wide differential between the extreme summer cooling season and the moderate winter heating season.

Projected Operating Statistics. The following table shows certain projected operating statistics of the District. Reflected in the values are anticipated retail sales losses due to customer choice. Total operating revenues also reflect revenue from stranded cost recovery for fiscal years 2003 and 2004. The projected operating statistics are based on certain assumptions that may not occur. Failure to realize such assumptions may adversely affect the projections.

TABLE 9 — Projected Operating Statistics

	Fiscal Year Ending April 30,					
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
SERVICE:						
Total Customer at Year-End (Distribution) (1)	783,479	807,301	835,291	864,505	893,126	920,762
Total Customers at Year-End (Energy) (2)	783,479	807,301	835,291	864,432	892,846	915,462
Total Energy Sales (million kWh)	29,878	29,910	31,420	33,425	34,236	35,120
Average Revenue per kWh (cents)	6.06	6.47	6.05	6.16	6.31	6.48
District Only: (excludes sale for resale)						
Sales (million kWh) ...	22,682	23,572	24,849	25,560	26,554	27,131
Increase in Sales (%)	N/A	3.92%	5.42%	2.86%	3.89%	2.18%
TOTAL OPERATING REVENUES:						
(000's omitted) (3) (4)	\$ 1,810,075	\$ 1,936,641	\$ 1,899,358	\$ 2,058,549	\$ 2,161,326	\$ 2,275,080
TOTAL OPERATING EXPENSES:						
(000's omitted)						
Power Operations (5) ...	599,965	623,341	659,465	713,013	748,438	775,324
Operating and Maintenance (6)	543,148	567,833	580,364	611,224	615,632	615,968
Ad Valorem Taxes (7) ...	5,651	5,651	5,651	5,651	5,651	5,651
Total Operating Expenses	1,148,764	1,196,825	1,245,480	1,329,888	1,369,721	1,396,943
NET OPERATING REVENUES	\$ 661,311	\$ 739,816	\$ 653,878	\$ 728,661	\$ 791,605	\$ 878,137
VOLUNTARY CONTRIBUTIONS IN LIEU OF TAXES						
(000's omitted)						
Expensed	\$ 61,712	\$ 76,833	\$ 80,314	\$ 80,733	\$ 86,521	\$ 88,576
Capitalized	200	400	410	410	420	430
Total	\$ 61,912	\$ 77,233	\$ 80,724	\$ 81,143	\$ 86,941	\$ 89,006

	Fiscal Year Ending April 30,					
	2003	2004	2005	2006	2007	2008
OTHER STATISTICS:						
Annual Peak: (MW)						
Service Territory						
System						
Requirements	5,300	5,500	5,720	5,940	6,170	6,400
Total Peak Load	5,690	5,895	6,122	6,349	6,587	6,445
System Load Factor						
(%)	50.2	50.3	50.9	51.2	51.4	51.5
Residential Statistics:						
Fiscal Year-End						
Residential						
Customers (8)	709,651	731,080	756,332	782,824	808,791	828,829
Annual Sales (million						
kWh) (8)	10,149	10,468	10,867	11,300	11,738	12,089
Average Annual Usage						
(kWh)	14,302	14,318	14,368	14,435	14,513	14,585
Average Sales Price						
per kWh (cents) (9)	7.33	7.31	6.63	6.63	6.63	6.63

- (1) Reflects District distribution area customer forecast.
- (2) Reflects anticipated retail energy customer losses due to customer choice.
- (3) Includes District retail and wholesale sales and anticipated price increases commencing fiscal year 2004.
- (4) Includes sales to District retail customers only, anticipated customer losses and anticipated price increases.
- (5) Excludes charges for water for power, depreciation on generation and railroad facilities, ad valorem taxes and voluntary contributions in lieu of taxes on railroad facilities.
- (6) Excludes depreciation on transmission, distribution, and general plant and includes payroll taxes.
- (7) Applies to out-of-state properties owned by the District.
- (8) Residential energy customers only — after anticipated customer losses.
- (9) Excludes anticipated price increases.

Voluntary Contributions in Lieu of Taxes. In accordance with permissive legislation, the District makes voluntary contributions each year to the State of Arizona, school districts, cities, counties, towns and other political subdivisions of the State of Arizona, for which property taxes are levied and within whose boundaries the District has property devoted to furnishing electric service. As a political subdivision of the State of Arizona, the District is exempt from property taxation. The amount paid is computed on the same basis as ad valorem taxes paid by a private utility corporation with allowance for certain deductions. Contributions based on the costs of construction work in progress are capitalized, and those based on plant-in-service are expensed.

Contractual Obligations Relating to Bonds of Other Political Subdivisions. The District has payment obligations under certain long-term contracts that secure Debt Service payable on bonds issued by another Arizona political subdivision. The District entered into power sales contracts in 1990 and 1991 with WAPA, USBR and CAWCD for the purchase of a total of 350 MW of peaking power. CAWCD's rights to receive payments from the District under these power sales contracts have been assigned to secure the payment of debt service on certain contract revenue bonds issued by CAWCD at varying interest rates per maturity and with a final maturity of 2011. The outstanding principal amount of these CAWCD bonds at June 30, 2002, was approximately \$172.5 million. The District anticipates that payment by the District under

these two power sales contracts with CAWCD will total \$233.1 million; payments under the power sales contracts will be made on a monthly basis for power available through September 30, 2011. The District is obligated under the power sales contracts with WAPA, USBR and CAWCD to pay each month for its allocated capacity at a capacity charge of \$6 per kilowatt per month for the period beginning on the date of initial service and ending September 30, 2011. The power sales contracts provide that this obligation of the District is absolute and unconditional and constitutes a general obligation of the District and not a special charge, lien, or pledge of the revenues of the Electric System. The power sales contracts also provide that the District may pay the capacity charge from the revenues of the Electric System as an operating expense so long as no "long-term forced outage" (as defined in the power sales contracts, being an outage or curtailment which reduces the District's contract capacity to 70% or less for an uninterrupted period exceeding 30 days) occurs and is continuing. During a long-term forced outage, the power sales contracts provide that the District will make the payments from its General Fund.

See "The ELECTRIC SYSTEM — Existing and Future Resources-Purchased Power" herein.

Additional Financial Matters

Management's Discussion of Operations — Fiscal Year 2002. The District's net revenues for the fiscal year ended April 30, 2002, were \$19.8 million compared to \$309.7 million for the previous year. The revenue decline this past year was due to several factors that impacted the District and the utility industry, including a price mitigation order by FERC, excess generation resources in the market place, consumer conservation and a general economic downturn. The District also adopted a new accounting standard in fiscal year 2002 that requires certain derivative instruments to be recorded at market value. The effect of adopting this new standard on net revenues was a net loss of \$44.2 million. The District's net revenues would have been \$64.0 million before applying this new standard.

Operating revenues, which were influenced by the same factors as net revenues, were \$2.2 billion for fiscal year 2002, compared to \$3.0 billion for fiscal year 2001. Operating expenses were \$2.1 billion for fiscal year 2002, compared with \$2.6 billion for fiscal year 2001. The change between years in operating expenses is primarily attributed to reduced production costs, including purchased power and fuel. Also contributing to the decrease in operating expenses was an \$85 million expense resulting from a write-down in fiscal year 2001 by the District of its regulatory assets related to its implementation of direct access to its generation services. Financing costs decreased by 13 percent from the prior year.

Management's Discussion of Operations — Fiscal Year 2003. Effective May 1, 2001, the District adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). The adoption of this new standard has produced some volatility in the District's revenues and expenses as result of unrealized gains and losses related to the recording of the mark-to-market on certain derivative instruments as required by SFAS No. 133. Results of operations are shown with and without the effects of SFAS No. 133.

For the four months ended August 31, 2002 and 2001, total operating revenues before the effects of SFAS 133 were \$741 million and \$948 million, respectively. This represents a 22 percent decrease between the two periods, due primarily to lower wholesale revenues. The decline in wholesale sales is the result of many factors, including the continuation of last year's price mitigation order by FERC; adequate sources of energy in the marketplace; and the District's stringent creditworthiness standards with its trading partners. The general economic slowdown and the financial stability of some wholesale customers have affected the District's wholesale trading volume.

Total operating expenses before the effects of SFAS No. 133 were \$623 million and \$821 million for fiscal years 2002 and 2001, respectively. This represents a 24 percent decrease

between the two periods. This change corresponds to reductions in wholesale sales and their effects on fuel and purchased power expenses. The overall megawatt-hour volume of power purchases dropped 18 percent from the same period last year as a result of decreased market liquidity. Operating expenses for fiscal year 2002 also include \$14.2 million as the District's share of an arbitration ruling related to the coal supply for Navajo Generating Station.

Other income and net financing costs for the four months ended August 31, 2002 and 2001 were \$35 million and \$34 million, respectively. There is no SFAS No. 133 effect for these items.

Net revenues before the effects of SFAS No. 133 were \$84 million and \$93 million for fiscal years 2002 and 2001, respectively. The factors described above combined to result in a 10 percent decrease in net revenues before the effects of SFAS No. 133 from the same four-month period in fiscal year 2001.

Net Revenues with the effects of SFAS No. 133 for fiscal years 2002 and 2001 were \$84 million and \$62 million, respectively.

Short-Term Promissory Notes and Credit Agreement Borrowings. The District's Board has authorized the issuance of up to \$525,000,000 in short-term promissory notes (the "Promissory Notes"). The Promissory Notes are being sold in the tax-exempt commercial paper market. The Promissory Notes mature no more than 270 days from the date of issuance. The Promissory Notes are issued in minimum denominations of \$100,000, in bearer or registered form without coupons, and bear interest from their date at an annual interest rate not in excess of 15%.

The District has two revolving credit agreements ("Agreements") which may be used to support the Promissory Notes. The indebtedness of the District evidenced by the Promissory Notes or borrowings under the Agreements are unsecured obligations of the District payable from the general funds of the District lawfully available therefor, subject in all respects to the prior lien of U.S. Government Loans, if any, Revenue Bonds and other indebtedness of the District secured by revenues or assets of the District. No specific revenues or assets of the District are pledged to the payment of the Promissory Notes or borrowings under the Agreements, and the Promissory Notes and such borrowings are not payable from taxes. Outstanding Promissory Notes and borrowings under the Agreements are accounted for by the District as long-term debt. At April 30, 2002 the District had no outstanding borrowings under the Agreements or prior credit agreements and had \$525,000,000 of the Promissory Notes outstanding. The District has limited the total amount of indebtedness which may be outstanding at one time under the Agreements, or any agreement in substitution or replacement therefor, and in the tax-exempt commercial paper market to an aggregate of \$525,000,000. However, the District has the right to issue commercial paper in excess of \$525,000,000 if it obtains an additional liquidity/credit facility equal to such additional commercial paper. The Agreements expire May 6, 2003, and the District is negotiating for their renewal or the acquisition of alternative credit facilities.

No Default. The District is not in default in the payment of the principal of or interest on any of its bonds, notes, or other debt obligations.

Outstanding Revenue Bond Indebtedness. As of April 30, 2002, the District had outstanding, net of current portion, approximately \$2,508,931,000 of Revenue Bonds. As part of the Recapitalization Plan, on August 14, 2002 the District defeased \$408,045,000 of its outstanding Revenue Bonds.

The following table shows total Debt Service Requirements immediately following the issuance of the 2002 Series D Bonds.

TABLE 10 — Total Debt Service Requirements

<u>Year Ending April 30(1)</u>	<u>Revenue Bond Debt Service Requirements</u>
2003	\$281,777,110
2004	363,393,782
2005	325,230,616
2006	329,463,502
2007	216,651,568
2008	235,712,720
2009	224,410,278
2010	189,052,672
2011	176,643,341
2012	159,640,404
2013	134,694,966
2014	122,130,412
2015	100,199,455
2016	72,360,869
2017	81,489,823
2018	86,088,913
2019	93,674,346
2020	87,264,371
2021	86,496,104
2022	85,933,104
2023	88,918,938
2024	90,473,638
2025	90,811,038
2026	91,332,685
2027	91,135,246
2028	92,356,775
2029	94,884,775
2030	96,844,775
2031	97,353,108
2032	77,857,183

(1) Debt Service amounts are for the years in which they accrue, not for the years in which they are paid, except for Capital Appreciation Bonds.

The following table shows the actual application of revenues and coverage of debt service requirements for fiscal years 1999, 2000, 2001 and 2002 and projections for fiscal years 2003 and 2004. The projected operating statistics are based on the financial plan reviewed by the Board on April 8, 2002 and certain assumptions that may not occur. Failure to realize such assumptions may adversely affect such projections.

TABLE 11 — Application of Revenues and Pro Forma Coverage of Debt Service Requirement (\$000's)

	Fiscal Year Ended April 30					
	1999	2000	Actual 2001	2002 (1)	Projected 2003	Projected 2004
Electric Revenues (2)	\$1,704,604	\$1,790,415	\$3,020,348	\$2,217,640	\$1,810,075	\$1,936,641
Operating Expenses (3) (4)	1,005,624	1,069,495	2,022,082	1,557,615	1,148,764	1,196,825
Revenues from Operations	698,980	720,920	998,266	660,025	661,311	739,816
Interest and Other Income (Net) ...	29,381	28,870	40,663	28,406	8,829	7,883
Revenues Available for Debt Service	728,361	749,790	1,038,929	688,431	670,140	747,699
Debt Service Requirements Revenue Bonds	227,309	223,501	220,132	222,862	304,955	418,058
Total Debt Service	227,309	223,501	220,132	222,862	304,955	418,058
Coverage of Total Debt Service by Revenues Available for Debt Service (5)	3.20	3.35	4.72	3.09	2.19	1.79
Balance after Debt Service	501,052	526,289	818,797	465,569	365,185	329,641
Plus: Interest on Construction Fund	4	0	0	1	7,329	0
Less: Contribution in Lieu of Taxes	69,890	63,271	56,048	59,617	61,712	76,833
Less: Contributions to Water Operations	42,987	40,924	47,469	32,219	43,000	39,412
Less: Falling Water Charges	4,122	5,361	4,090	9,397	7,332	7,407
Balance Available for Corporate Purposes	<u>\$ 384,057</u>	<u>\$ 416,733</u>	<u>\$ 711,190</u>	<u>\$ 364,337</u>	<u>\$ 260,470</u>	<u>\$ 205,989</u>
Potential Early Debt Redemptions ...	0	0	0	0	464,190 (6)	150,000
Adjusted Balance Available for Corporate Purposes (7)	<u>\$ 384,057</u>	<u>\$ 416,733</u>	<u>\$ 711,190</u>	<u>\$ 364,337 (4)</u>	<u>\$ (203,720)</u>	<u>\$ 55,989</u>

(1) Includes inter-company sales.

(2) Includes ad valorem taxes applicable to out-of-state properties owned by the District and payroll taxes. Excludes depreciation, voluntary contributions in lieu of taxes and inter-company charge for water for power and includes price increases.

(3) Operating expenses include costs on an accrual basis for post-retirement medical benefits and demand charges related to the contract for Navajo Surplus.

(4) May be reconciled with combined net revenues for 2002 (shown on page A4) as follows:

BALANCE AVAILABLE FOR CORPORATE PURPOSES	\$ 364,337,000
Bond principal repayment	86,180,000
Capitalized Interest	14,398,000
Amortization of regulatory assets	(139,367,000)
Depreciation and amortization	(272,495,000)
Fuel related depreciation (reflected in fuel costs)	(1,835,000)
Amortization of bond accretion	(862,000)
Amortization of bond discount, issuance, and refinancing expenses	(1,732,000)
Desert Basin capital lease payment	15,371,000
Net revenues before impact of SFAS No. 133 implementation ..	63,995,000
Impact of SFAS No. 133 implementation	(44,199,000)
COMBINED NET REVENUES	<u>\$ 19,796,000</u>

- (5) Fiscal year 2004 projected Debt Service Coverage ("DSC") is lower than historical years and reflects the effects of the District's Recapitalization Plan that accelerates the retirement of certain Revenue Bonds. The completion of the Recapitalization Plan, as discussed in prior sections, will permit the District to achieve additional financing and operational flexibility to enhance its ability to compete if competition does develop in this industry. The District expects the DSC to return to higher levels beginning in fiscal year 2006.
- (6) On August 14, 2002 the District defeased \$408,045,000 of Revenue Bonds with Available General Fund monies.
- (7) The District will fund potential early debt redemptions from balances available for corporate purposes and available General Fund monies.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

General

The electric utility industry in general has been, and in the future may be, affected by a number of factors which could impact upon the business affairs, financial condition and competitiveness of an electric utility and the level of utilization of its generating facilities, such as those of the District. One of the most significant of these factors is the effort on national and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on both the wholesale and retail level. For a description of the competition in the electric utility industry in Arizona and the response of the District thereto, see "Competition in Arizona" and "District's Response to Utility Industry Developments" herein.

In addition, such factors include, among others, (i) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (iii) changes that might result from a national energy policy, (iv) increased competition from independent power producers (v) "self-generation" by certain industrial and commercial customers, (vi) issues relating to the ability to issue tax-exempt obligations, (vii) severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects financed with outstanding tax-exempt obligations, (viii) changes from projected future electricity requirements, (ix) increases in costs, (x) shifts in the availability and relative costs of different fuels; and (xi) effects of the financial difficulties confronting the power marketers. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The District cannot predict what effects these factors will have on its business, operations and financial condition, but the effects could be significant. The following is a brief discussion of certain of these factors. However, this discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement. Extensive information on the electric utility industry is, and will be, available from sources in the public domain, and potential purchasers of the securities of the District should obtain and review such information.

Certain FERC Initiatives

In 1996, FERC, which regulates the electric utility industry under the authority of various statutes, issued rules effecting significant changes in the regulation of transmission services provided by "public utilities" (as defined in the Federal Power Act), which own, operate or control interstate transmission facilities used to transmit power in interstate commerce. The rules require public utilities to provide nondiscriminatory transmission services to entities seeking to

effect wholesale power transactions, and to grant equal access to information concerning the pricing and availability of transmission services. The District is not a public utility under the Federal Power Act. FERC has applied the principles set forth in these rules to consumer-owned and other non-public utilities, by requiring such utilities to agree to provide open-access transmission service as a condition to securing transmission service from public utilities under open-access tariffs. See "District's Response to Utility Industry Developments" herein.

In December 1999, FERC issued Order No. 2000, which, among other things, created a collaborative process for utilities to facilitate the creation of RTOs. FERC encouraged participation in RTOs by non-public utilities. See "THE ELECTRIC SYSTEM — Existing and Future Resources — Transmission" herein.

On July 31, 2002, FERC issued a Notice of Proposed Rulemaking (the "2002 NOPR") that proposes wide-ranging changes to the nation's wholesale energy market. Through the 2002 NOPR, FERC proposes to (i) mandate a standard market design ("SMD") which provides a framework for wholesale electric markets to remedy alleged discrimination in the use of the interstate transmission system; (ii) exercise jurisdiction over the transmission component of bundled retail transactions for FERC jurisdictional transmission owners; and (iii) establish a new form of universal transmission service to replace point-to-point and network services available pursuant to Order No. 888. The 2002 NOPR also proposes that all jurisdictional transmission owners and operators that have not yet joined an RTO must contract with an independent entity to operate their transmission facilities. Additionally, the 2002 NOPR proposes the continuation of the reciprocity requirement for non-jurisdictional utilities set forth in Order No. 888.

While the District is not directly subject to FERC jurisdiction, the District could be affected by the 2002 NOPR, depending on the final order. The District is unable to predict the outcome of this proposed rule making at this time.

Federal Legislation

Many bills have been introduced in the United States Congress to deregulate the electric utility industry on the federal or state level. Many of the bills provide for open competition in the furnishing of electricity to all retail customers (i.e. retail wheeling). In addition various bills have been introduced which would subject public power entities that own transmission facilities to regulation by FERC, and which would impact the issuance of tax-exempt bonds for transmission and generation facilities. The District is unable to predict whether any of these bills, or any similar federal bills proposed in the future, will become law, or, if they become law, what their final form or effect would be.

Competition in Arizona

The Electric Power Competition Act. In May 1998, the Arizona Legislature enacted the Competition Act, which applies to public power entities like the District. The Competition Act authorized competition in the retail sale of electric generation, recovery of stranded costs, and competition in billing, collection, metering and meter reading. The Competition Act allows a temporary surcharge on prices for electric distribution service to pay for all or a portion of unmitigated stranded costs of electric generation service that were incurred as a direct result of the onset of competition. Such costs must have been incurred prior to December 26, 1996 to serve customers in Arizona, and must not cause prices to exceed the prices that were in effect on December 30, 1998. The District fully complies with the Competition Act. The District expects that the Arizona Legislature may reconsider details of the Competition Act in its 2003 session.

The Arizona Corporation Commission. The ACC regulates investor-owned utilities, called public service corporations in Arizona. The Arizona Legislature in the Competition Act directed the ACC to adopt rules for competition similar to what the Arizona Legislature had enacted for public power entities.

In 1999, the ACC issued rules for retail electric competition, which allowed customers to be eligible for competitive electric service based on certain phased-in schedules set by the ACC. The rules and other aspects of competition by investor-owned utilities are being challenged in the courts. The ACC is reexamining its electric competition rules and actions related thereto in order to determine whether changed circumstances require it to amend its policy of competitive retail electric markets and has cancelled the planned divestiture of power plants by APS and TEP to unregulated affiliates.

California Energy Crisis

In 1996, California adopted a restructuring program for its electric utility industry that required, among other conditions, generation divestiture, reliance on wholesale spot markets, and rigid retail price controls. California opened 100% of the service territories of investor-owned utilities to retail competition on March 31, 1998. During the year 2000 and the first two quarters of 2001 energy prices in California skyrocketed and resulted in severe economic hardship for several utilities. The outcome was a dysfunctional energy market, exponentially high wholesale prices, the bankruptcy of California's largest investor-owned utility (Pacific Gas and Electric Company ("PG&E")) and blackouts caused by inadequate resources to serve customers.

As a result of the high prices for electricity in California, FERC imposed price caps in June 2001 for power sold at wholesale not only in California but elsewhere in the West. Wholesale prices fell dramatically. FERC has extended the price cap until October 30, 2002, at which time automatic procedures to mitigate the effects of any participant exerting market power in California should be in place.

The District has close ties to the California energy market due to its sales and purchases of wholesale energy, the activities of New West Energy in marketing energy services in California, and the role of Southern California Edison Company ("SCE") as operator of the Mohave Generating Station and as a participant in other jointly-owned facilities with the District. Consequently, the District has closely monitored developments in California, and developed a response to the California situation and its immediate fallout (see discussion below). However, the District cannot predict with certainty the impact that any future resolution, or attempted resolution, of the California energy crisis, or the impact of credit difficulties, may have on it. See "District's Response to Utility Industry Developments" herein.

Power Exchange Energy Credits. In California from April 1998 through March 2002, state law required that utility distribution companies ("UDCs") freeze their retail rates at 1996 levels. This effectively provided retail customers in their service territories a guarantee of a fixed retail price. This guarantee applied to all distribution customers, whether or not the customer received energy from the UDC. When a competitive energy provider ("electric service provider" or "ESP") provided generation to a UDC's distribution customer, the UDC became obligated, in most cases to the ESP, for a credit equal to the price for energy that the UDC was paying at the California Power Exchange ("PX"). This credit was known as the PX Energy Credit.

Starting in the summer of 2000, wholesale prices increased significantly to levels above the maximum retail rates set for UDCs by the California Public Utility Commission ("CPUC"). This created significant PX Energy Credits, which ultimately SCE and PG&E ceased paying. When New West Energy returned its energy service customers to SCE and PG&E in December 2000, both SCE and PG&E owed PX Energy Credits to New West Energy. New West Energy assigned its PX Energy Credits to the District.

SCE has paid with interest all PX Energy Credits owed to NWE and thus to the District. The plans of reorganization filed in the PG&E bankruptcy proceeding propose to pay 100% of any allowed claim. However, PG&E is disputing the amount of the PX Energy Credit claims, and has asserted to the bankruptcy court that claims should be disallowed in their entirety. It is uncertain when or if payment of the PX Energy Credits will be made.

District's Response to Utility Industry Developments

Federal and State Deregulation. In response to FERC's open access rules, the District filed a comparable open access transmission tariff in order to ensure reciprocal access to the transmission systems of public utilities. The District was one of the first public power utilities to make such a filing and did so pursuant to rules that FERC had developed for non-jurisdictional entities like the District. The District is also participating in the development of a regional transmission organization for the Southwest. See "THE ELECTRIC SYSTEM — Existing and Future Resources — Transmission."

Soon after the passage of the Competition Act, the District, in August and December 1998, adopted resolutions to open 20% of the District's 1995 retail load to competition for the retail sale of electric generation effective December 31, 1998. Customers who elected competitive electric generation could also choose billing, collection, metering and meter reading services on a competitive basis if their demand exceeded one megawatt. On June 1, 2000, seven months ahead of schedule, the District opened its entire service area to generation competition by electricity suppliers who had been approved by the ACC. The entire service area was opened to competition in billing, collection, metering and meter reading beginning December 31, 2000. However, currently no customer of the District has a generation supplier or supplier of other competitive services (billing, collection, metering or meter reading) other than the District.

Also effective December 31, 1998, the District introduced unbundled pricing plans. For retail customers who were unable or unwilling to choose competitive electric generation, prices reflected a decrease of at least 10% over a 10-year period, apportioned among customer classes.

The Competition Act permitted public power entities to recover their stranded costs. In connection with its 1998 resolutions, the District elected to recover its stranded costs and authorized a non-by-passable CTC not to exceed \$795 million. In addition, surcharges to the District's distribution customers recover the costs of programs that benefit the general public, such as discounted prices for the elderly or impoverished, renewable energy programs, research and development, and nuclear decommissioning, including the cost of storage of spent nuclear fuel. These surcharges are separately identified in the District's price plans. On June 4, 2001, the District determined that the CTC should cease to be collected effective June 1, 2004 or when the \$795 million has been collected, whichever occurs first. The District reviewed the CTC as part of a public process in the Fall of 2001 and no change to the CTC was made. Having already met the statutory 10% rate reduction requirement, the District will not be subject to retail price caps at such time as the CTC is eliminated.

Differences between California and Arizona. Although California has taken steps to correct the structural defects inherent in its restructuring legislation, Arizona, and in particular the Competition Act, has been virtually free of these problems.

The California restructuring legislation required utilities to divest themselves of generation. The Competition Act did not require public power entities to divest their generation or transmission assets. Hence the District has remained vertically integrated, and the ACC is considering delaying those portions of its rules which require divestiture.

In California, distribution companies had been prohibited from entering into long-term and forward contracts for the purchase of power. They had to buy all their power requirements from the PX, a day-ahead and real-time power pool, essentially a spot market that subjected the distribution companies to the vagaries of a spot market — high and volatile prices. Unlike California, distribution companies in Arizona have always been able to use both long-term and forward contracts as appropriate to obtain lower wholesale prices, reduce price volatility, and hedge their risks.

Another difference between California and Arizona is the supply and demand situation, which is better in Arizona than in California. Arizona utilities, including the District, continue to invest and build infrastructure assets, such as generation and transmission resources. The siting process in California was also undermined by a general regulatory perception that more plants were unnecessary. Additionally, the uncertainty of eventual plant ownership, and the recovery of stranded costs as the end result of the restructuring process begun in 1996, deferred many projects as investors and generators waited to see how matters would be resolved in California. See "THE ELECTRIC SYSTEM — Projected Peak Loads and Resources" herein.

Strengths of the District/Competitive Business Strategy. The District has several strengths as well as a competitive business strategy, which positions it well to deal with the effects of the restructuring of the utility industry.

The District has retained its existing vertically integrated infrastructure; it has retained 100% of its existing generation assets and is developing additional resources to keep up with its load growth. The fuel sources for existing generation are diversified, and planned additions include coal as well as gas resources. See "THE ELECTRIC SYSTEM — Existing and Future Resources" and "THE ELECTRIC SYSTEM — Projected Peak Loads and Resources" herein.

The District has taken steps to prepare for increased competition in the utility industry for well over a decade. These results have been achieved through initiatives that included extensive debt refinancing, renegotiation of fuel supply agreements, staff reductions, implementation of numerous operating efficiencies and enhancing services provided to the District's customers. The District also has a diversified customer base and no single customer provides more than 2.9% of its operating revenues. See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses" herein.

The District is regulated by an independent, publicly-elected Board of Directors who approve its capital budgets and electric price structure. Together the Board and management have developed various initiatives in response to the restructuring in California and Arizona. See "THE DISTRICT — Organization, Management and Employees" herein.

The District has conducted studies, which have shown that customers with high loyalty rates are less likely to select another generation provider. Consequently, the District has implemented projects and programs geared towards enhancing "customer loyalty" by offering them a range of pricing and service options. Moreover, the District has reduced retail prices and is one of the low-cost price leaders in the Southwest. The District received the J.D. Powers Award in 1999, 2000 and 2002 for the highest score for residential customer satisfaction in the West.

Energy Risk Management Program. The cornerstone of the District's approach to risk management is its mission to serve its retail customers. This means that the District builds or acquires resources to serve retail customers, not the wholesale market. The District has an Energy Risk Management Program to limit exposure to risks inherent in normal energy business operations by measuring and minimizing exposure to price risks, credit risks, and control risks. Specific goals of the program include reducing the impact of market fluctuations on energy commodity prices associated with customer energy requirements, excess generation and fuel expenses; meeting customer pricing needs; and maximizing the value of physical generating assets. To meet the goals of the Energy Risk Management Program, the District uses various physical and financial instruments, including forward contracts, futures, swaps, and options. Certain of these transactions are accounted for under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS No. 133"). Under SFAS No. 133, derivative instruments are recorded in the balance sheet as either an asset or liability measured at their fair value. The standard also requires that changes in the fair value of the derivative be recognized each period in current earnings or other comprehensive income depending on the purpose for using the derivative and/or its qualification, designation and effectiveness as a hedging transaction. Most of the District's contractual

agreements qualify for the normal purchases and sales exception allowed under SFAS No. 133 and are not recorded at market value.

The Energy Risk Management Program is managed according to a policy approved by the Board. The policy covers areas such as strategies, specific price and control risk issues, and credit policy that the District applies to its wholesale counterparties. The credit policy provides for continuous monitoring of credit exposures, routine assessment of the financial strength of its counterparties, and minimization of credit risk by dealing primarily with creditworthy counterparties, and by requiring letters of credit, parent guarantees or other collateral when the financial strength of a counterparty is not considered sufficient. In addition, the District has established a credit reserve for its activity in wholesale markets.

During the past year, the financial stability and creditworthiness of some major participants in the wholesale energy markets has deteriorated. The District believes that its existing wholesale credit policies and procedures are appropriate and that its exposures are adequately covered by existing reserves.

Environmental

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures that regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that facilities owned by the District will remain subject to the regulations currently in effect, will always be in compliance with future regulations, or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels, or the complete shutdown of individual electric generating units not in compliance.

Congress is considering new legislation as a part of the CAA that may impact all power plants directly. Regulation of electric utility emissions is likely to change significantly under the legislation being considered. The EPA, the State of Arizona, and local jurisdictions would issue new regulations to implement any new legislation. The changes could affect the cost of generating and purchasing power. If any such regulations are enacted, the existing cost assumptions for electric utilities may change. While it is too early to determine what new regulations may be enacted, in what form, or what their effect will be, the changes may have a material impact on the cost of power generated at affected generating units.

The EPA is developing regulations for the control of mercury emissions from coal and oil-fired utility boilers. Regulations are scheduled to be proposed in late 2003 with a compliance date of late 2007. These regulations will affect all new and existing units. The EPA has not yet determined the level of control that will be required. This rule could affect the District's coal-fired units and the District is still uncertain of the impact, which could range from no change to the installation of new emission controls.

President Bush recently proposed a Clear Skies Initiative (CSI) intended to achieve dramatic reductions of sulfur dioxide, oxides of nitrogen and mercury emissions in a coordinated and phased manner. The administration expects that the CSI will result in substantial power plant emission reductions and provide the electric power generation industry with regulatory certainty while maintaining fuel supply diversity. A number of other bills are also under consideration in Congress that call for significant reductions in sulfur dioxide, nitrogen and mercury as well as carbon dioxide. The current CAA contains several provisions that are directed at emissions of sulfur dioxide, nitrogen and mercury. The District is planning on future emission reductions at its coal-fired power plants as a result of these legislative and regulatory initiatives. The specific level of reduction and compliance cost will not be known until new legislation is passed or the EPA and the states finalize existing regulatory programs under the CAA.

Nuclear Plant Matters

In accordance with the Nuclear Waste Policy Act of 1982, APS contracted with the United States Department of Energy ("DOE") for waste and spent fuel disposal services. DOE was to have initiated these services by January 1998. Because of the significant delays in DOE's schedule, it is unlikely that APS will be able to initiate shipments to DOE during the licensed life of the PVNGS. Accordingly, APS is constructing an on-site dry cask storage facility to receive and store PVNGS spent fuel that is sufficient to provide storage for all three units for a 40-year operating life. The facility is expected to receive and store spent fuel by the end of 2002.

The Nuclear Regulatory Commission ("NRC") has adopted decommissioning rules which require reactor operators to certify that sufficient funds will be available for decommissioning the contaminated portion of nuclear plants in the form of prepayments or external sinking funds, either of which must be segregated from the licensee's assets and outside its administrative control, or by the surety of insurance payable to a trust established for decommissioning costs. The District is collecting funds through its price plans to decommission its share of PVNGS Units 1, 2 and 3. The District projects that it will accumulate \$271.8 million in 1998 dollars over the life of PVNGS for this purpose. The decommissioning funds are maintained in an external trust in compliance with NRC regulations. The District anticipates being able to continue to collect decommissioning funds in a competitive generation market.

Security Matters

Following the tragic events at the World Trade Center in New York on September 11, 2001, increased emphasis has been placed on addressing security measures for infrastructure systems and facilities throughout the United States. In response, the District has placed its operations on highest alert and has taken security measures beyond those normally in effect to protect its Electric System and other assets.

Summary

As discussed above, the electric utility industry is experiencing problems in a number of areas. The District is unable to predict the extent to which its construction programs and operations will be affected by such factors, but they could result in incurrence of substantial additional costs and could adversely affect its revenues.

LITIGATION

At the time of delivery of and payment for the 2002 Series D Bonds, the law firm of Jennings, Strouss & Salmon, P.L.C., Phoenix, Arizona, legal advisors to the District, will deliver a no-litigation opinion stating substantially that, no litigation is now pending or, to its knowledge threatened, affecting or questioning the organization of the District or the titles or manner of election of the officers or directors of the District to their terms of office, respectively; and no litigation is now pending or, to its knowledge threatened, affecting or questioning the power and authority of the District to issue, execute and deliver the 2002 Series D Bonds or the pledge or application of any moneys or security provided for the payment thereof.

In the normal course of business the District is a defendant in various legal actions. In management's opinion, except as otherwise noted below, the ultimate resolution of these matters would not have a significant adverse effect on the District's financial position or operations.

Environmental Issues

Endangered Species Act. At Roosevelt Dam, the southwestern willow flycatcher, an endangered species of bird, has taken up summer nesting within the habitat in the lakebed of the reservoir. The habitat that the birds are using developed when the level of water in the reservoir

became and stayed low in the last several years because of below-normal runoff. Future full operation of the reservoir means that the level of water in the reservoir would flood the habitat, which is prohibited under the Endangered Species Act ("ESA"). Therefore, in order to store and deliver the water supply to the Project, the Association, as agent of the District, has developed with the United States Fish and Wildlife Service a Habitat Conservation Plan (the "Plan"), which would allow full operation of the reservoir. The goal of the Plan is to protect the southwestern willow flycatcher by mitigating harmful impacts to the species, most likely by the establishment of another habitat in another area. The District has reserved funds, which it believes will be sufficient, to implement the Plan. The District is evaluating the potential for ESA compliance at other reservoirs as well.

Navajo Environmental Laws. In 1995, the District, on behalf of the Navajo Generating Station Participants, filed a lawsuit in the Navajo Nation Tribal Court against the Navajo Nation, its Environmental Protection Agency and the Agency's Director as a result of the defendants' attempts to apply three of the Navajo Nation's environmental laws against NGS and the NGS Participants. These laws are the Navajo Nation Air Pollution Prevention and Control Act, the Navajo Nation Safe Drinking Water Act, and the Navajo Nation Pesticide Act. The District contends that the application of these laws to NGS and the NGS Participants is precluded by the NGS Plant Site Lease, the Section 323 Grants by the United States for the NGS Plant Site and Railroad, and federal law. APS, on behalf of the Four Corners Participants, filed a lawsuit challenging the same laws on similar grounds. Both actions have been served on the defendants; however, all parties have agreed to stay the litigation so settlement discussions may occur.

In July, 2000, the District filed a separate action in the Navajo Nation Supreme Court, requesting that the Court review final regulations that were issued by the Navajo Nation Environmental Protection Agency pursuant to the Navajo Air Quality Statute. APS filed a similar petition in a separate action with the Navajo Nation Supreme Court. The District, APS, and the Navajo Nation have filed a stipulation to stay these proceedings under the same terms as the stay in the actions regarding the laws. The Court has approved the stays and settlement discussions are continuing.

Water Rights

Gila River Adjudication. The District and the Association are parties to a state water rights adjudication proceeding encompassing the entire Gila River System (the "Gila River Adjudication"). This proceeding is pending in the Superior Court for the State of Arizona, Maricopa County, and will eventually result in the determination of all conflicting rights to water from the Gila River and its tributaries, including the Salt and Verde Rivers.

Gila River Indian Community. The United States on behalf of the Gila River Indian Community ("GRI Community") filed a lawsuit in 1982 in the Federal District Court, District of Arizona, to protect the water right claims of the GRI Community. The Association is among the many defendants named in this lawsuit. The lawsuit claims that the defendants' use of surface water and groundwater violates the GRI Community's rights to water in certain specified areas, and requests a decree specifying the GRI Community's rights, injunctive relief to stop the alleged illegal use of water by the defendants, and damages for increased costs to the GRI Community from, among other things, having to deepen its wells. This lawsuit has been stayed pending the outcome of the Gila River Adjudication.

Little Colorado River Adjudication. In 1978, a water rights adjudication was initiated in the Apache County Superior Court with regard to the Little Colorado River System. The District has filed its claim to water rights in this proceeding, which includes a claim for groundwater being used in the operation of CGS. The District is unable to predict the ultimate outcome of this proceeding, but believes an adequate water supply for CGS will remain available.

Coal Supply

Navajo Nation Lawsuit. In June 1999, the Navajo Nation filed a lawsuit in the United States District Court in Washington D.C., alleging that the coal supplier for the Navajo and Mohave Generating Stations ("Peabody"), SCE, the District, and other defendants, had induced the United States to breach its fiduciary duty to the Navajo Nation, and had violated federal racketeering statutes. The lawsuit arises out of negotiations that culminated in 1987 with amendments to the coal royalty and lease agreements for mining coal for the Navajo and Mohave Generating Stations. The suit alleges \$600 million in damages and seeks treble damages along with punitive damages of not less than \$1 billion. In March, 2001, the Hopi Tribe intervened in the suit. However, the claims of both the Navajo Nation and the Hopi Tribe were dismissed in their entirety with respect to the District. The Navajo Nation and Hopi Tribe may appeal the dismissals.

Previously, the Navajo Nation had filed a lawsuit against the United States Government based on similar allegations. That lawsuit had been dismissed, but on appeal, it was reinstated and the Court of Appeals, in August 2001, held that the United States had breached its fiduciary duty to the Navajo Nation, and that a claim for damages was within the jurisdiction of the Court of Federal Claims. The United States Supreme Court will hear this case during its next term. Peabody claims it is entitled to reimbursement under the coal supply agreements for its costs associated with both lawsuits as well as for additional costs if the coal royalty rate under the coal leases was retroactively raised above the current rate.

The District is unable to predict the likely outcome of these matters at this time.

Navajo Generating Station Five-Year Price Review. The coal supply agreement for NGS provides for a review of the sale price of coal at five-year intervals. In 1997, the Navajo Participants and Peabody initiated a review covering the period 1992-1996. Following extended unsuccessful negotiations, the parties submitted the matter to arbitration in 2000. In 2002 the arbitration panel ruled in favor of Peabody and revised coal prices were implemented for the period beginning January 1997. The cost of additional payments for the 1997-2002 period for the Navajo Participants is approximately \$30 million. The District's share of these payments is \$14.2 million.

The District, on behalf of the NGS Participants, has initiated a price review for the period 1997-2001 as well. The District and Peabody have just begun their preliminary audits and neither party has called for arbitration. It is too early to predict the likely outcome of this review.

Final Reclamation and Retiree Medical Benefits. The agreements for the coal supplies for the Mohave Generating Station and NGS are scheduled to expire in 2005 and 2011, respectively, subject to the rights of the participants in the Mohave Generating Station and NGS to extend the agreements. The coal supplier, Peabody, has advised the District that upon expiration of the initial or extended terms, Peabody intends to stop mining coal at the Black Mesa and Kayenta Mines and to start final reclamation work as required by law. Peabody contends that the owners of the Mohave Generating Station and NGS are liable for the final reclamation work and for retiree health care benefits for employees at the two mines, even after cessation of mining operations.

In June 2002, Peabody and the Mohave Participants participated in mediation of the issue of final reclamation and retiree medical benefits through which a settlement was reached. The Mohave Participants agreed to pay to Peabody approximately \$45.7 million, including royalties, taxes and interest. The payment will be paid monthly from January 2003 through December 2005. The District's share of this liability totals approximately \$9.1 million.

The NGS Participants continue to dispute their alleged liability to Peabody for these costs which according to Peabody estimates, total approximately \$54 million for the Navajo Project. Negotiations to resolve the disputes have been unsuccessful and the NGS Participants and

Peabody are litigating and arbitrating the disputes. If the NGS Participants are found liable for these expenses, Peabody will seek either to establish an escrow account to be funded immediately, or to spread the funding over the remaining term of the coal supply agreement. The actual expenses for reclamation will run for 15 to 20 years after mining ceases, and the actual retiree health care costs are projected to continue for decades.

Natural Gas Supply

The District and other entities in Arizona have full requirements contracts with El Paso for the transportation of natural gas. Because of the nature of full requirement contracts, other users of the El Paso System, principally in California, have no certainty of delivery, and have challenged the full requirements contracts at FERC. FERC has agreed with the request of the other users to convert the full requirements contracts to contracts with fixed amounts, and has set an implementation date of May 1, 2003. The financial impact of FERC's order cannot be determined, but it could be significant. See "ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply" for a discussion of other fuel supply issues.

Nuclear Fuel Supply

The Energy Policy Act provides, among other things, that utilities with nuclear reactors will contribute an aggregate total of \$150 million annually, based upon an assessment, for a period of 15 years, up to a total of \$2.25 billion (in 1992 dollars), for the costs of the decommissioning and decontamination ("D&D") of the DOE nuclear fuel enrichment facilities.

In 1996, APS, on behalf of the PVNGS Participants, filed a claim in the United States Claims Court requesting a refund of the special assessments that the PVNGS Participants have paid (and continue to pay) into the D&D Fund, on the basis that the D&D Fund constitutes an improper retroactive price increase under the uranium enrichment contract. Twenty-seven other nuclear utilities also filed refund claims against the United States Government. In 1998, APS and 15 other utilities filed suit in the U.S. District Court challenging the constitutionality of the fees. In July 2002, APS and other utilities agreed to voluntarily dismiss their claims based on an adverse ruling against another utility on the same issues and the U.S. Supreme Court's denial of certiorari in the matter. To date, the PVNGS Participants have paid approximately \$34 million, and for the entire fifteen-year period, it is estimated that \$55 million will ultimately be paid into the D&D Fund. The District's share will amount to approximately \$9.6 million, which will be expensed over a fifteen-year period and recovered through its price plans.

California Energy Market Litigation and Investigations

A number of lawsuits have been filed concerning various aspects of the California energy market. In addition, the State of California and federal authorities are conducting investigations and other proceedings concerning various aspects of the energy situation. Several of these investigations focus on the involvement of Enron in allegedly manipulating the market. Because the District bought and sold power into the California energy market, the District has been drawn into many of the proceedings. However, the District was a net buyer in the California market during the time periods being scrutinized.

The State of California and others have filed various claims, alleging antitrust violations, which have now been consolidated, against many of the power suppliers to California. Two of the suppliers who were named as defendants in those matters filed cross-claims against about 30 other participants in the California energy markets, including the District, in an attempt to expand those claims to such other participants. The District is seeking to have the cross-claims dismissed and believes that the claims, as they relate to the District, are without merit.

There are two proceedings at FERC concerning potential refunds for spot market transactions in California and in the Pacific Northwest as a result of the disturbances in the

California market. The District is a party to both proceedings. It is too early to tell whether FERC will order refunds in either proceeding, the amounts of any refunds, or whether FERC's orders will stand on appeal. However, the District was a net buyer in the California and Pacific Northwest markets. The District believes that the resolution of these proceedings will not have a material adverse impact on its finances, and may have a positive impact.

LEGALITY OF REVENUE BONDS FOR INVESTMENT

Under the Act, the 2002 Series D Bonds constitute legal investments for savings banks, banks, savings and loan associations, trust companies, executors, administrators, trustees, guardians and other fiduciaries in the State of Arizona and for any board, body, agency or instrumentality of the State of Arizona, or of any county, municipality or other political subdivision of the State of Arizona, and constitute securities which may be deposited by banks, savings and loan associations or trust companies as security for deposits of state, county, municipal and other public funds.

UNDERWRITING

The Underwriters have jointly and severally agreed, pursuant to a purchase contract between the Underwriters and the District, subject to certain conditions, to purchase all, but not less than all, of the 2002 Series D Bonds from the District at an aggregate purchase price, of \$112,703,074 reflecting net original issue premium of \$9,267,852, and an underwriters' discount of \$629,779 from the initial public offering prices set forth on the inside cover page of this Official Statement.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the 2002 Series D Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2002 Series D Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the 2002 Series D Bonds. The District has covenanted to comply with the provisions of the Code applicable to the 2002 Series D Bonds and has covenanted not to take any action or permit any action that would cause the interest on the 2002 Series D Bonds to be included in gross income under Section 103 of the Code applicable to the 2002 Series D Bonds. In addition, the District has made certain representations and certifications in the Tax Certificate as to Arbitrage and the Provisions of Sections 141-150 of the Internal Revenue Code of 1986. Special Tax Counsel will not independently verify the accuracy of those certifications and representations.

In the opinion of Nixon Peabody LLP, Special Tax Counsel, under existing law and assuming compliance with the aforementioned covenants and the accuracy of certain representations and certifications made by the District described above, interest on the 2002 Series D Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. Special Tax Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the 2002 Series D Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

State Taxes

Special Tax Counsel is also of the opinion that, under existing law, interest on the 2002 Series D Bonds is exempt from income taxes imposed by the State of Arizona.

Original Issue Premium

The 2002 Series D Bonds are being offered at prices in excess of their principal amounts. Special Tax Counsel is of the opinion that an initial purchaser with an initial adjusted basis in the 2002 Series D Bonds in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each 2002 Series D Bond based on the purchaser's yield to maturity. For purposes of determining gain or loss on the sale or other disposition of a 2002 Series D Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such 2002 Series D Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such 2002 Series D Bonds. Owners of the 2002 Series D Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such the 2002 Series D Bonds.

Certain Federal Tax Information

General. The following is a discussion of certain additional tax matters under existing statutes. It does not purport to deal with all aspects of Federal taxation that may be relevant to particular investors. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2002 Series D Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Social Security and Railroad Retirement Payments. The Code provides that interest on tax-exempt obligations is included in the calculation of modified adjusted gross income in determining whether a portion of Social Security or railroad retirement benefits received are to be included in taxable income.

Branch Profits Tax. The Code provides that interest on tax-exempt obligations is included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States.

Borrowed Funds. The Code provides that interest paid (or deemed paid) on borrowed funds used during a tax year to purchase or carry tax-exempt obligations is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

Property and Casualty Insurance Companies. The Code contains provisions relating to property and casualty insurance companies whereunder the amount of certain loss deductions otherwise allowed is reduced (in certain cases below zero) by a specified percentage of, among other things, interest on tax-exempt obligations acquired after August 7, 1986.

Financial Institutions. The Code provides that commercial banks, thrift institutions and other financial institutions may not deduct the portion of their interest expense allocable to tax-exempt

obligations acquired after August 7, 1986, other than certain "qualified" obligations. The 2002 Series D Bonds are not "qualified" obligations for this purpose.

S Corporations. The Code imposes a tax on excess net passive income of certain S corporations that have subchapter C earnings and profits. Interest on tax-exempt obligations must be included in passive investment income for purposes of this tax.

Earned Income Credit. For any taxable year beginning after December 31, 1995, the Code denies the earned income credit to persons otherwise eligible for it if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds \$2,200, subject to adjustment for inflation for taxable years beginning after December 31, 1996. Interest on the 2002 Series D Bonds will constitute disqualified income for this purpose.

Changes in Federal Tax Law and Post Issuance Events. From time to time proposals are introduced in Congress that, if enacted into law, could have an adverse impact on the potential benefits of the exclusion from gross income for Federal income tax purposes of the interest on the 2002 Series D Bonds, and thus on the economic value of the 2002 Series D Bonds. This could result from reductions in Federal income tax rates, changes in the structure of the Federal income tax rates, changes in the structure of the Federal income tax or its replacement with another type of tax, repeal of the exclusion of the interest on the 2002 Series D Bonds from gross income for such purposes, or otherwise. It is not possible to predict whether any legislation having an adverse impact on the tax treatment of holders of the 2002 Series D Bonds may be proposed or enacted.

Special Tax Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the 2002 Series D Bonds may affect the tax status of interest on the 2002 Series D Bonds. Special Tax Counsel expresses no opinion as to any Federal, State or local tax law consequences with respect to the 2002 Series D Bonds, or the interest thereon, if any action is taken with respect to the 2002 Series D Bonds or the proceeds thereof upon the advice or approval of other counsel.

APPROVAL OF LEGAL MATTERS

Legal matters incident to the authorization and issuance of the 2002 Series D Bonds are subject to the approval of McCarter & English, LLP, Bond Counsel, whose final approving opinion will be delivered with the 2002 Series D Bonds in substantially the form attached hereto as Appendix D. Certain legal matters in connection with the 2002 Series D Bonds will be passed upon for the District by Jennings, Strouss & Salmon, P.L.C. and by Nixon Peabody LLP, Special Tax Counsel. Certain legal matters will be passed upon for the Underwriters by Winston & Strawn, counsel to the Underwriters.

The various legal opinions and/or certifications to be delivered concurrently with the delivery of the 2002 Series D Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion and/or certification, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of parties to the transaction. Nor does the rendering of an opinion and/or certification guarantee the outcome of any legal dispute that may arise out of the transaction.

RATINGS

Standard & Poor's Corporation and Moody's Investor Service have given the ratings of AA and Aa2, respectively, to the 2002 Series D Bonds. Such ratings reflect only the view of such organizations, and an explanation of the significance of such rating may be obtained only from the respective rating agency. There is no assurance that such ratings will be maintained for any given

period of time, or that they will not be revised downward, or be withdrawn entirely by the respective rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2002 Series D Bonds.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Agreement, the District will covenant for the benefit of the holders and Beneficial Owners of the 2002 Series D Bonds to provide certain financial information and operating data relating to the District by not later than 180 days after the end of each of the District's fiscal years (presently, each April 30), commencing with the fiscal year ending April 30, 2003 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2002 Series D Bonds, if material. The Continuing Disclosure Agreement provides that the Annual Report and any notices of such material events will be filed by or on behalf of the District with each nationally recognized municipal securities information repository and with the information repository, if any, established by the State of Arizona. Under the Continuing Disclosure Agreement, the sole remedy for any Bondholder upon an event of default is a lawsuit for specific performance in a court of competent jurisdiction. See "Appendix E — Form of Continuing Disclosure Agreement".

The District's covenant is being made in order to assist the Underwriters in complying with the secondary market disclosure requirements of Rule 15(c)2-12 of the Securities and Exchange Commission (the "Rule"). The District has never failed to comply in any material respect with any previous undertaking with regard to the Rule to provide annual reports or notices of material events.

INDEPENDENT PUBLIC ACCOUNTANTS

The financial statements, as of April 30, 2002 and April 30, 2001 and for the years then ended, are included in this Official Statement. The 2002 financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

The financial statements for 2001 were audited by Arthur Andersen, LLP, whose report expressed an unqualified opinion on those statements.

The prospective financial information included in this Official Statement has been prepared by, and is the responsibility of, the District's management. PricewaterhouseCoopers LLP has neither examined nor compiled the accompanying prospective financial information and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report included in this Official Statement relates to the District's historical financial information. It does not extend to the prospective financial information and should not be read to do so.

FINANCIAL ADVISOR

The District has retained Lazard Frères & Co., LLC ("Lazard") as its financial advisor. Although Lazard has assisted in the preparation of this Official Statement, Lazard is not obligated to undertake and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The mathematical accuracy of (i) the computation of the adequacy of the maturing principal and interest earned on the direct obligations of the United States of America held by the Escrow Agent to pay, when due, the principal of, the redemption premium and interest on the Refunded Bonds and (ii) certain computations made supporting the conclusion by Special Tax Counsel that the 2002 Series D Bonds are not "arbitrage bonds" under Section 148 of the Code have been verified by Bond Resource Partners. Such verifications are based upon certain information supplied to Bond Resource Partners by the Underwriters.

OTHER AVAILABLE INFORMATION

The District prepares an annual report with respect to each fiscal year ending April 30, which typically becomes available in September of the following fiscal year. The annual report includes information relating to District members, staff, legal and financial services, operations and audited financial statements for the fiscal year ending April 30.

The annual report with audited financial statements for the year ended April 30, 2002 is available. Copies of the annual report and audited financial statements may be obtained by writing to Salt River Project Agricultural Improvement and Power District, Corporate Communications, PAB340, P.O. Box 52025, Phoenix, AZ 85072-2025. Copies of the Annual Report can also be obtained by contacting 602-236-2598 or by sending a request to investor@srpnet.com.

MISCELLANEOUS

References herein to the Act, the Resolution and certain other statutes, resolutions and contracts are brief discussions of certain provisions thereof. Such discussions do not purport to be complete, and reference is made to such documents for full and complete statements of such provisions.

Any statements made in this Official Statement involving matters of opinion or of projections, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the projections will be realized.

The District has authorized the execution and delivery of this Official Statement.

Salt River Project Agricultural
Improvement and Power District

/s/ WILLIAM P. SCHRADER

President

/s/ RICHARD H. SILVERMAN

General Manager

Attest:

/s/ TERRILL A. LONON

Corporate Secretary

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APPENDIX A — Report of Independent Public Accountants and
Combined Financial Statements as of April 30, 2002 and 2001



REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Salt River Project Agricultural Improvement
and Power District, and
the Board of Governors of
Salt River Valley Water Users' Association

In our opinion, the accompanying combined balance sheets as of April 30, 2002 and the related combined statements of net revenues and comprehensive income and of cash flows present fairly, in all material respects, the financial position of Salt River Project Agricultural Improvement and Power District and its subsidiaries and Salt River Valley Water Users' Association (collectively, the Company) at April 30, 2002 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The combined financial statements of the Company as of April 30, 2001 and for the year then ended were audited by other independent accountants whose report dated June 11, 2001 expressed an unqualified opinion on those statements.

As discussed in Note 3 to the combined financial statements, on May 1, 2001 the Company adopted Statement of Financial Accounting Standards No. 133 and changed its method of accounting for derivative instruments.

A handwritten signature in cursive script that reads 'Price Waterhouse Coopers LLP'.

Los Angeles, California
May 30, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors,
Salt River Project Agricultural Improvement
and Power District, and
Board of Governors,
Salt River Valley Water Users' Association:

We have audited the accompanying combined balance sheets of the SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AND SUBSIDIARIES, and the SALT RIVER VALLEY WATER USERS' ASSOCIATION (collectively, the Company) as of April 30, 2001 and 2000, and the related combined statements of net revenues and comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of April 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Phoenix, Arizona
June 11, 2001

**This is a copy of a previously issued report.
The report has not been reissued by Arthur Andersen.**

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
April 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
	(Thousands)	
ASSETS		
UTILITY PLANT		
Plant in service —		
Electric	\$ 6,652,164	\$ 5,948,320
Irrigation	246,974	234,392
Common	385,897	391,698
Total plant in service	7,285,035	6,574,410
Less — Accumulated depreciation on plant in service	(3,313,051)	(3,102,243)
	3,971,984	3,472,167
Plant held for future use	31,144	31,134
Construction work in progress	482,568	326,215
Nuclear fuel, net	42,966	37,044
	4,528,662	3,866,560
OTHER PROPERTY AND INVESTMENTS		
Non-utility property and other investments	110,166	87,573
Segregated funds, net of current portion	368,296	352,302
	478,462	439,875
CURRENT ASSETS		
Cash and cash equivalents	594,523	636,954
Temporary investments	185,463	348,031
Current portion of segregated funds	81,044	72,312
Receivables, net of allowance for doubtful accounts	140,843	348,307
Fuel stocks	35,612	25,480
Materials and supplies	70,063	60,500
Other current assets	14,964	39,519
	1,122,512	1,531,103
DEFERRED CHARGES AND OTHER ASSETS	458,291	516,410
	<u>\$ 6,587,927</u>	<u>\$ 6,353,948</u>
CAPITALIZATION AND LIABILITIES		
LONG-TERM DEBT	\$ 3,033,931	\$ 3,098,273
ACCUMULATED NET REVENUES AND OTHER COMPREHENSIVE INCOME	2,330,268	2,312,014
TOTAL CAPITALIZATION	5,364,199	5,410,287
CURRENT LIABILITIES		
Current portion of long-term debt	114,340	71,940
Accounts payable	121,727	207,129
Accrued taxes and tax equivalents	57,821	31,551
Accrued interest	40,981	52,279
Customers' deposits	26,645	23,336
Other current liabilities	117,706	111,355
	479,220	497,590
DEFERRED CREDITS AND OTHER NON-CURRENT LIABILITIES	744,508	446,071
COMMITMENTS AND CONTINGENCIES (Notes 5, 7, 8, 9, 10, 11 and 12)		
	<u>\$ 6,587,927</u>	<u>\$ 6,353,948</u>

The accompanying notes are an integral part of these combined financial statements.

SALT RIVER PROJECT
COMBINED STATEMENTS OF NET REVENUES AND COMPREHENSIVE INCOME
For the Years Ended April 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
	(Thousands)	
OPERATING REVENUES	\$2,214,378	\$3,026,787
OPERATING EXPENSES		
Power purchased	713,797	914,646
Fuel used in electric generation	420,070	514,049
Other operating expenses	338,176	471,670
Maintenance	139,908	156,002
Depreciation and amortization	411,915	473,334
Taxes and tax equivalents	86,255	82,335
Total operating expenses	<u>2,110,121</u>	<u>2,612,036</u>
Net operating revenues	<u>104,257</u>	<u>414,751</u>
OTHER INCOME (EXPENSES)		
Interest income	55,801	68,147
Other expenses, net	(3,497)	(2,662)
Total other income (expenses), net	<u>52,304</u>	<u>65,485</u>
Net revenues before financing costs	<u>156,561</u>	<u>480,236</u>
FINANCING COSTS		
Interest on bonds	137,544	148,110
Amortization of bond discount/premium and issuance expenses ..	1,732	4,951
Interest on other obligations	23,721	24,011
Capitalized interest	(14,398)	(6,532)
Net financing costs	<u>148,599</u>	<u>170,540</u>
NET REVENUES BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	7,962	309,696
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE ..	11,834	—
NET REVENUES	19,796	309,696
OTHER COMPREHENSIVE INCOME		
Net unrealized loss on securities and derivative instruments	(1,542)	(36,575)
COMPREHENSIVE INCOME	<u>\$ 18,254</u>	<u>\$ 273,121</u>

The accompanying notes are an integral part of these combined financial statements.

SALT RIVER PROJECT
COMBINED STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
	(Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net revenues	\$ 19,796	\$ 309,696
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation and amortization	411,915	473,334
Postretirement benefits expense	27,900	23,800
Amortization of provision for loss on long-term contracts	(13,281)	(13,281)
Amortization of net bond discount/premium and issuance expenses	1,732	4,951
Amortization of spent nuclear fuel storage	1,446	1,333
Cumulative effect of change in accounting principle	11,834	—
Decrease (increase) in —		
Fuel stocks and materials & supplies	(19,695)	4,299
Receivables, including unbilled revenues, net	207,464	(167,937)
Other assets	(96,188)	(11,620)
Increase (decrease) in —		
Accounts payable	(85,402)	94,702
Accrued taxes and tax equivalents	26,270	(1,221)
Accrued interest	(11,298)	(750)
Other liabilities, net	105,286	70,861
Net cash provided by operating activities	<u>587,779</u>	<u>788,167</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to utility plant, net	(643,564)	(372,863)
Decrease in investments	141,568	228,138
Net cash used for investing activities	<u>(501,996)</u>	<u>(144,725)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	1,013,150	—
Repayment of long-term debt, including refundings	(1,097,470)	(73,859)
Payment of capital lease obligation	(15,371)	—
Increase in segregated funds	(28,523)	(21,564)
Net cash used for financing activities	<u>(128,214)</u>	<u>(95,423)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(42,431)	548,019
BALANCE AT BEGINNING OF YEAR IN CASH AND CASH EQUIVALENTS	636,954	88,935
BALANCE AT END OF YEAR IN CASH AND CASH EQUIVALENTS ..	<u><u>\$ 594,523</u></u>	<u><u>\$ 636,954</u></u>
SUPPLEMENTAL INFORMATION		
CASH PAID FOR INTEREST (Net of capitalized interest)	\$ 158,165	\$ 166,339
NONCASH FINANCING ACTIVITIES		
Utility plant acquired under capital lease	\$ 292,068	—
Loss on defeasance	\$ 60,646	—

The accompanying notes are an integral part of these combined financial statements.

SALT RIVER PROJECT
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2002 AND 2001

(1) Basis of Presentation:

The Company

The Salt River Project Agricultural Improvement and Power District (the District) is an agricultural improvement district organized in 1937 under the laws of the State of Arizona. It operates the Salt River Project (the Project), a federal reclamation project, under contracts with the Salt River Valley Water Users' Association (the Association) by which it has assumed the obligations of the Association to the United States of America for the care, operation and maintenance of the Project. The District owns and operates an electric system that generates, purchases and distributes electric power and energy, and provides electric service to residential, commercial, industrial and agricultural power users in a 2,900 square mile service territory in parts of Maricopa, Gila and Pinal Counties, plus mine loads in an adjacent 2,400 square mile area in Gila and Pinal Counties. The Association, incorporated under the laws of the Territory of Arizona in 1903, operates an irrigation system as the District's agent.

In 1997, the District established a wholly-owned, taxable subsidiary, New West Energy Corporation (New West Energy), to market, at retail, energy available to the District that is surplus to the needs of its retail customers, and energy that may be rendered surplus by retail competition in Arizona in the supply of generation. In addition, New West Energy provides other retail energy-related services to current and prospective energy customers as part of its program to market surplus energy. However, as a result of the turmoil in the California energy market, the District has reassessed the business plan of New West Energy. At the current time, New West Energy does not market excess energy. It continues to provide energy-related services to various customers, and monitor the market situation in the Southwest in contemplation of future activity.

Possession and Use of Utility Plant

The United States of America retains a paramount right or claim in the Project that arises from the original construction and operation of certain of the Project's electric and water facilities as a federal reclamation project. Rights to the possession and use of, and to all revenues produced by, these facilities are evidenced by contractual arrangements with the United States of America.

Principles of Combination

The accompanying combined financial statements reflect the combined accounts of the Association and the District (together referred to as SRP). The District's financial statements are consolidated with its two wholly-owned taxable subsidiaries, New West Energy and Papago Park Center, Inc. (PPC). PPC is a real estate management company. All material intercompany transactions and balances have been eliminated.

Regulation and Pricing Policies

Under Arizona law, the District's publicly-elected Board of Directors (the Board) serves as its regulatory body and has the exclusive authority to establish electric prices. The District is required to follow certain procedures, including public notice requirements and special Board meetings, before implementing changes in standard electric price schedules.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

(2) Significant Accounting Policies:

Basis of Accounting

The accompanying combined financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and reflect the pricing policies of the Board. The District's "regulated" operations apply Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), while "non-regulated" operations follow GAAP for enterprises in general. Classification of regulated and non-regulated operations is determined in accordance with applicable GAAP accounting guidelines.

The preparation of financial statements in compliance with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingencies. Actual results could differ from the estimates.

Utility Plant

Utility plant is stated at the historical cost of construction, less any impairment losses. Capitalized construction costs include labor, materials, services purchased under contract, and allocations of indirect charges for engineering, supervision, transportation and administrative expenses and capitalized interest or an allowance for funds used during construction (AFUDC). AFUDC is the estimated cost of funds used to finance regulated plant additions and is recovered in prices through depreciation expense over the useful life of the related asset. The cost of property that is replaced, removed or abandoned, together with removal costs, less salvage, is charged to accumulated depreciation.

A composite rate of 5.45% and 5.54% was used in fiscal years 2002 and 2001 to calculate interest on funds used to finance construction work in progress for non-regulated projects, resulting in \$14.4 million and \$6.5 million of interest capitalized, respectively.

Depreciation expense is computed on the straight-line basis over the estimated useful lives of the various classes of plant assets. The following table reflects the District's average depreciation rates on the average cost of depreciable assets, for the fiscal years ended April 30:

	<u>2002</u>	<u>2001</u>
Average electric depreciation rate	3.92%	3.58%
Average irrigation depreciation rate	2.88%	2.20%
Average common depreciation rate	6.41%	5.84%

Bond Expense

Bond discount/premium and issuance expenses are being amortized using the effective interest method over the terms of the related bond issues.

Allowance for Doubtful Accounts

The District has provided for an allowance for doubtful accounts of \$67.5 million and \$76.4 million as of April 30, 2002 and 2001, respectively.

Nuclear Fuel

The District amortizes the cost of nuclear fuel using the units of production method. The nuclear fuel amortization and the disposal expense are components of fuel expense. Accumu-

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

lated amortization of nuclear fuel at April 30, 2002 and 2001 was \$318.4 million and \$301.0 million, respectively.

Nuclear Decommissioning

The total cost to decommission the District's 17.49% share of Palo Verde Nuclear Generating Station (PVNGS) is estimated to be \$344.9 million, in 2001 dollars. This estimate is based on a site specific study prepared by an independent consultant, assuming the prompt removal/dismantlement method of decommissioning authorized by the Nuclear Regulatory Commission (NRC). This study is updated as required, every three years, and was last updated in the fall of 2001. Based on the 2001 site study, the District estimates its share of ultimate decommissioning expenditures will be \$1.8 billion. Current decommissioning funding levels assume earnings on the decommissioning funds of 7.65%, as well as a future annual escalation rate of 5.92% in decommissioning costs. The actual decommissioning costs may vary from the estimate. Expenditures for decommissioning activities are anticipated over a fourteen-year period beginning in 2024. Estimated decommissioning costs are accrued over the estimated useful life of PVNGS. The liability associated with decommissioning is included in deferred credits and other non-current liabilities in the accompanying Combined Balance Sheets and amounted to \$93.5 million and \$84.9 million as of April 30, 2002 and 2001, respectively. Decommissioning expense, net of earnings on trust fund assets, of \$3.6 million and \$4.3 million was recorded in fiscal years 2002 and 2001, respectively. The District contributes to a trust set up in accordance with the NRC requirements. Decommissioning funds of \$121.4 million and \$113.5 million, stated at market value, as of April 30, 2002 and 2001, respectively, are held in the trust and are classified as segregated funds in the accompanying Combined Balance Sheets. Unrealized gains on decommissioning fund assets of \$28.2 million and \$30.2 million at April 30, 2002 and 2001, respectively, are included in accumulated comprehensive income as a component of accumulated net revenues.

Accounting for Energy Risk Management Activities

The District has an energy risk management program to limit exposure to risks inherent in normal energy business operations. The goal of the energy risk management program is to measure and minimize exposure to price risks, credit risks and control risks. Specific goals of the energy risk management program include reducing the impact of market fluctuations on energy commodity prices associated with customer energy requirements, excess generation and fuel expenses, in addition to meeting customer pricing needs, and maximizing the value of physical generating assets. The District employs established policies and procedures to meet the goals of the energy risk management program using various physical and financial instruments, including forward contracts, futures, swaps and options. Certain of these transactions are accounted for under Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended (SFAS No. 133). Under SFAS No. 133, derivatives instruments are recorded in the balance sheet as either an asset or liability measured at their fair value. The standard also requires changes in the fair value of the derivative be recognized each period in current earnings or other comprehensive income depending on the purpose for using the derivative and/or its qualification, designation and effectiveness as a hedging transaction. Most of the District's contractual agreements qualify for the normal purchases and sales exception allowed under SFAS No. 133 and are not recorded at market value. For a detailed explanation of the effects of SFAS No. 133 on the District's financial results see Note (3) Accounting for Derivative Instruments and Hedging Activities.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

Concentrations of Market and Credit Risk

Market risk is the risk that changes in market prices or customer demand will adversely affect earnings and cash flows. Industry movements towards competition in electric generation subject the District to market risk associated with energy commodities such as electric power and natural gas. Recovery of costs to produce electricity in a non-regulated environment will be affected by changes in competitive market prices for both production resources and the market price of energy sales to ultimate customers.

The use of contractual arrangements to manage the risks associated with changes in energy commodity prices creates credit risk exposure resulting from the possibility of nonperformance by counterparties pursuant to the terms of their contractual obligations. In addition, volatile energy prices can create significant credit exposure from energy market receivables. The District has a credit policy for wholesale counterparties, and continuously monitors credit exposures, routinely assesses the financial strength of its counterparties, minimizes credit risk by dealing primarily with creditworthy counterparties, entering into standardized agreements which allow netting of exposures to and from a single counterparty and by requiring letters of credit, parent guarantees or other collateral when it does not consider the financial strength of a counterparty sufficient.

Income Taxes

The District is exempt from federal and Arizona state income taxes. Accordingly, no provision for income taxes has been recorded for the District in the accompanying combined financial statements.

New West Energy recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in its financial statements or tax returns. Deferred tax liabilities and assets are determined based on differences between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Since its inception in May 1997, the tax effect of New West Energy's results of operations has been immaterial.

Cash Equivalents

The District treats short-term temporary cash investments with original maturities of three months or less as cash equivalents.

Revenue Recognition

The District recognizes revenue when billed and accrues estimated revenue for electricity delivered to customers that has not yet been billed.

Materials and Supplies, and Fuel Stocks

Materials and supplies are stated at lower of market or average cost. Fuel stocks are stated at lower of market or cost using the last-in, first-out method.

Reclassifications

For comparative purposes, certain prior year amounts have been reclassified to conform with the current year presentation.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

Recently Issued Accounting Standards

During fiscal year 2002, the Financial Accounting Standards Board (FASB) issued SFAS Nos. 141-145:

SFAS No. 141, "*Business Combinations*," requires all business combinations initiated after June 30, 2001 be accounted for using the purchase method. The District evaluated the effect of SFAS No. 141 and determined there were no financial impacts related to its adoption by the District.

SFAS No. 142, "*Goodwill and Other Intangible Assets*," modifies the accounting and reporting of goodwill and other intangible assets. Under SFAS No. 142, entities are required to determine the useful life of intangible assets and amortize them over that period; if the useful life is determined to be indefinite, no amortization is to be recorded. For intangible assets recognized prior to the adoption of SFAS No. 142, the useful life is to be reassessed. The District evaluated the impact of SFAS No. 142 and determined there were no financial impacts related to its adoption by the District.

SFAS No. 143, "*Accounting for Asset Retirement Obligations*," requires the recognition, as an Asset Retirement Obligation (ARO), of a liability for dismantlement and restoration costs associated with the retirement of tangible long-lived assets in the period the liability is incurred. Upon initial recognition, the probability weighted future cash flows for the associated retirement costs, discounted using a credit-adjusted risk-free rate, are recognized as both a liability and as an increase in the capitalized carrying amount of the related long-lived assets. Capitalized asset retirement costs are depreciated over the life of the related asset, with accretion of the ARO liability classified as an operating expense on the income statement. SFAS No. 143 must be applied by the District at the beginning of fiscal year 2004. The District is evaluating the impact of SFAS No. 143 on the combined financial statements.

SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*," supercedes SFAS No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*." SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for the measurement and recognition of the impairment of long-lived assets to be held and used, as well as the measurement of long-lived assets to be disposed of by sale. SFAS No. 144 resolves significant implementation issues related to SFAS No. 121, broadens the component of an entity to be included in the presentation for discontinued operations, and measures long-lived assets held for sale at the lower of their carrying amount or fair value (less cost to sell), while ceasing depreciation. SFAS No. 144 also retains the amendments in SFAS No. 121 pertaining to regulatory assets under SFAS No. 71 and SFAS No. 90, "*Regulated Enterprises — Accounting for Abandonments and Disallowances of Plant Costs*." The adoption of SFAS No. 144 did not have a significant impact on the combined financial statements.

SFAS No. 145, "*Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections*," rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, "*Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*" have been met. SFAS No. 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after May 15, 2002. Management does not believe that the adoption of this statement will have a material impact on SRP's combined financial statements.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

(3) Accounting for Derivative Instruments and Hedging Activities

Effective May 1, 2001, the District adopted SFAS No. 133 as amended. SFAS No. 133 requires that entities recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in net revenues or accumulated net revenues (as a component of other comprehensive income), depending on whether or not the derivative meets specific hedge accounting criteria. This criteria includes a requirement for hedge effectiveness, which is measured based on the relative changes in fair value between the derivative contract and the hedged item over time. Any change in the fair value resulting from ineffectiveness is recognized immediately in net revenues. This new standard may result in additional volatility in the District's net revenues and comprehensive income.

The District enters into contracts for electricity, natural gas and other energy commodities to meet the expected needs of its retail customers. During periods when it is not needed to meet retail requirements, the District sells any excess capacity. The District's energy risk management program uses various physical and financial contracts to hedge exposures to fluctuating commodity prices. The District examines contracts at inception to determine the appropriate accounting treatment. If a contract does not meet the derivative criteria or if it qualifies for the SFAS No. 133 normal purchases and sales scope exception, the District accounts for the contract using settlement accounting (this means that costs and revenues are recorded when physical delivery occurs). For contracts that qualify as a derivative and do not meet the SFAS No. 133 normal purchases and sales scope exception, the District further examines the contract to determine if it will qualify for hedge accounting. If a contract does not meet the hedging criteria in SFAS No. 133, the District recognizes the changes in the fair value of the derivative instrument in net revenues each period (mark-to-market). If the contract does qualify for hedge accounting, changes in the fair value are recorded in accumulated net revenues and other comprehensive income (as a component of other comprehensive income).

The District formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to the forecasted transactions. The District also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the District discontinues hedge accounting prospectively, as discussed below.

The District discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the District discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative is reclassified into earnings. If the derivative remains outstanding, the District will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current-period earnings.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

Initial Adoption

Upon adoption of SFAS No. 133, the District examined all contracts to determine the appropriate accounting treatment and concluded that some of the contracts entered into for supply and energy risk management activities were considered to be derivatives based on the accounting guidance at that time. The District's supply and energy risk management activities include the following types of contracts:

- *Long-term contracts* — purchases and sales of firm capacity and energy for periods of more than one year under unique contracts.
- *Forward contracts* — purchases and sales of a specified amount of capacity, energy or fuel at a specified price over a given period of time, typically for one month, three months or one year, under standard industry contracts.
- *Futures contracts* — similar to forward contracts with standardized terms and typically traded on an exchange. The District has a passively managed futures contract portfolio in which contracts are entered into and held to delivery and an actively managed futures contracts portfolio in which contracts are purchased and sold to take advantage of positive market changes.
- *Option contracts* — purchases and sales of financial instruments that provide the right to buy or sell energy commodities.
- *Swap contracts* — financial contracts to exchange cash flows based on agreed-upon parameters and price fluctuations in an energy related commodity.
- *Short-term contracts* — economy energy purchases and sales in the daily or hourly markets at fluctuating spot market prices and other non-firm energy sales.

Based on the District's interpretation of SFAS No. 133 and other guidance, the District classified its energy risk management contracts as follows:

<u>Contract Type</u>	<u>Normal Purchases and Sales</u>	<u>Cash Flow Hedge</u>	<u>Non-Qualifying Hedging Contracts</u>
Energy Risk Management Contracts:			
Long-term supply contracts	X		
Forward contracts	X		X
Futures contracts — passively managed		X	
Futures contracts — actively managed			X
Option contracts			X
Swap contracts			X
Short-term contracts			X

The accounting treatments for the various classifications are as follows:

- **Normal Purchases and Sales:** The contracts that qualify for the normal purchases and sales scope exception under SFAS No. 133 are accounted for using settlement accounting. The realized gains and losses on these contracts are reflected in net revenues as a component of net operating revenues at the contract settlement date.
- **Cash Flow Hedge:** The unrealized gains and losses related to these contracts are included in accumulated net revenues and other comprehensive income (as a component of other comprehensive income). As the contracts are settled, the realized gains and

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

losses are recorded in net revenues as a component of net operating revenues and the unrealized gains and losses are reversed from other comprehensive income.

- **Non-qualifying Hedging Contracts:** These contracts hedge the risk of future commodity price fluctuations the District faces. However, they do not meet the requirements of SFAS No. 133 for hedge accounting. The unrealized gains and losses related to the contracts are reflected in net revenues as a component of net operating revenues.

As a result of adopting SFAS No. 133 and guidance issued by the FASB's Derivative Implementation Group (DIG) effective during fiscal year 2002, the District recognized \$98.1 million of derivative assets and \$80.5 million of derivative liabilities in the Combined Balance Sheets as of May 1, 2001. Also as of May 1, 2001, the District recorded an \$11.8 million gain in net revenues and a \$5.8 million gain in accumulated net revenues and other comprehensive income (as a component of other comprehensive income), both as a cumulative effect of a change in accounting principle.

As of April 30, 2002, the valuation of market changes for the District's energy risk management contracts resulted in a decrease in electric revenues of \$11.6 million and an increase in fuel expenses of \$44.4 million. The impact to net revenues for fiscal year 2002 was an unrealized loss of \$44.2 million. Without the effect of market changes, the net revenues for the period would have been \$64.0 million. Accumulated net revenues and other comprehensive income (as a component of other comprehensive income), was increased by \$2.3 million due to unrealized cash flow hedge gains as of April 30, 2002. Most of this impact relates to a multi-year hedge on transportation costs from two major gas basins in the Southwest for natural gas used for retail generation. The following table summarizes the District's net revenues and balance sheet impact from market valuation of contracts as of April 30, 2002 (in thousands):

Net Revenues

Operating Revenues before effects of SFAS No. 133	\$2,225,985
Operating Expenses, Other Income and Net Financing Costs before effects of SFAS No. 133	2,161,990
Net Revenues before effects of SFAS No. 133	63,995
Cumulative Effect of Change in Accounting Principle at May 1, 2001 on:	
Revenues — gain	10,502
Expenses — gain	(1,332)
Effects of SFAS No. 133 at April 30, 2002 on:	
Revenues — loss	(11,606)
Expenses — loss	44,427
Net Revenues	<u>\$ 19,796</u>

Balance Sheet

Other Current Assets	\$ 3,383
Deferred Charges and Other Assets	12,514
Other Current Liabilities	(18,552)
Deferred Credits and Other Non-current Liabilities	<u>(39,289)</u>
Net Asset (Liability)	<u>\$ (41,944)</u>

As of April 30, 2002, the maximum length of time over which the District hedged its exposure to the variability in future cash flows for forecasted transactions was eighteen months. During the twelve months ended April 30, 2003, the District estimates that a net gain of \$0.3 million will be

SALT RIVER PROJECT
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

reclassified from accumulated other comprehensive income as an offset to the effect on earnings of market price changes for the related hedged transactions.

In December 2001, the DIG issued revised guidance on the accounting for electricity contracts with option characteristics and the accounting for contracts that combine a forward contract and a purchased option contract. The effective date for the revised guidance for the District is May 1, 2002. The District is currently evaluating the new guidance to determine what impact, if any, it will have on the District's financial statements.

To date, the DIG has issued more than 100 interpretations to provide guidance in applying SFAS No. 133. As the DIG or the FASB continues to issue interpretations, the District may change the conclusions reached and, as a result, the accounting treatment and the impact on the combined financial statements, could change in the future.

(4) Accumulated Net Revenues and Other Comprehensive Income:

The following table summarizes accumulated net revenues and other comprehensive income (in thousands):

	Accumulated Net Revenues	Accumulated Other Comprehensive Income	Accumulated Net Revenues and Other Comprehensive Income
BALANCE, April 30, 2000	\$1,936,095	\$102,798	\$2,038,893
Net revenues	309,696	—	309,696
Net unrealized loss on available-for-sale securities	—	(36,575)	(36,575)
BALANCE, April 30, 2001	2,245,791	66,223	2,312,014
Net revenues	19,796	—	19,796
Cumulative effect of change in accounting principle	—	5,765	5,765
Unrealized gain on derivative instruments	—	2,255	2,255
Reclassification of realized loss to income	—	(5,765)	(5,765)
Net unrealized loss on available-for-sale securities	—	(3,797)	(3,797)
BALANCE, April 30, 2002	<u>\$2,265,587</u>	<u>\$ 64,681</u>	<u>\$2,330,268</u>

The majority of net unrealized loss on available-for-sale securities originates from decommissioning trust and segregated fund investments. Net unrealized gain (loss) on available-for-sale securities consists of gross unrealized (loss) on equity funds of \$(2.0) million and \$(41.1) million and gross unrealized gain (loss) on debt funds of \$(1.8) million and \$4.5 million at April 30, 2002 and 2001, respectively.

SALT RIVER PROJECT
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

(5) LONG-TERM DEBT:

Long-term debt consists of the following at April 30 (in thousands):

	<u>Interest Rate</u>	<u>2002</u>	<u>2001</u>
Revenue bonds (mature through 2031)	3.0 – 7.0%	\$2,613,259	\$2,713,999
Unamortized bond discount/premium		10,012	(68,786)
Total revenue bonds outstanding		2,623,271	2,645,213
Commercial paper	1.2 – 1.7%	525,000	525,000
Total long-term debt		3,148,271	3,170,213
Less — current portion		(114,340)	(71,940)
Total long-term debt, net of current portion ...		<u>\$3,033,931</u>	<u>\$3,098,273</u>

The annual maturities of long-term debt (excluding commercial paper and unamortized bond discount/premium) as of April 30, 2002, due in the fiscal years ending April 30, are as follows (in thousands):

2003	\$ 114,340
2004	264,291
2005	215,616
2006	323,727
2007	79,995
Thereafter	1,615,290
	<u>\$2,613,259</u>

Revenue Bonds

Revenue bonds are secured by a pledge of, and a lien on, the revenues of the electric system, after deducting operating expenses, as defined in the bond resolution. Under the terms of the bond resolution, the District is required to maintain a debt service fund for the payment of future principal and interest. Included in segregated funds in the accompanying Combined Balance Sheets is \$149.1 million and \$283.7 million of debt service related funds as of April 30, 2002 and 2001, respectively.

The District has \$80.2 million of mini-revenue bonds outstanding and redeemable at the option of the bondholder under certain circumstances. Based on historical redemptions made on these bonds, management believes there are sufficient funds available to cover potential redemptions in any year.

The debt service coverage ratio, as defined in the bond resolution, is used by bond rating agencies to help evaluate the financial viability of the District. For the years ended April 30, 2002 and 2001, the debt service coverage ratio was 3.09 and 4.72, respectively.

Interest and the amortization of the bond discount and issue expense on the various issues results in an effective rate of 5.38% over the remaining term of the bonds.

The District has authorization to issue additional Electric System Revenue Bonds totaling \$1.2 billion principal amount and Electric System Refunding Revenue Bonds totaling \$2.7 billion principal amount, net of amounts issued in current year. These amounts include \$675.0 million in Electric System Revenue Bonds and \$750.0 million in Electric System Refunding Revenue Bonds

SALT RIVER PROJECT
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

authorized by the Commission on December 4, 2001, pursuant to applications filed earlier that year.

In December 2001, the District issued \$580.6 million of Electric System Refunding Revenue Bonds. The net proceeds from these bonds were used to defease outstanding bonds with par amounts of \$605.1 million. The defeasance is expected to reduce total debt payments over the life of the bonds by \$426.2 million and is expected to result in present value savings of approximately \$30.2 million. This transaction resulted in a net loss for accounting purposes of \$34.6 million, which was deferred and will be amortized over the life of the bonds to be refunded, as authorized by the Board.

In February 2002, the District issued \$432.6 million of Electric System Refunding Revenue Bonds. The net proceeds from these bonds were used to defease outstanding bonds with par amounts of \$437.4 million. The defeasance is expected to reduce total debt payments over the life of the bonds by \$21.4 million and is expected to result in present value savings of approximately \$29.6 million. This transaction resulted in a net loss for accounting purposes of \$26.1 million, which was deferred and will be amortized over the life of the bonds to be refunded, as authorized by the Board.

Commercial Paper

The District has issued \$525.0 million of tax-exempt commercial paper consisting of \$375.0 million Series B Issue and \$150.0 million Series A Issue, initiated in fiscal year 1998. The issues have an average weighted interest rate to the District of 1.47%. The commercial paper matures not more than 270 days from the date of issuance and is an unsecured obligation of the District. The District has the ability to refinance the outstanding commercial paper on a long-term basis in connection with its revolving lines of credit that support the commercial paper and are available through May 6, 2003. As such, the District has classified the commercial paper as long-term debt in the Combined Balance Sheets as of April 30, 2002.

While the revolving credit agreements contain covenants that could prohibit borrowing under certain conditions, management believes financing would be available. The District has never borrowed under the two agreements and management does not expect to do so in the future. Alternative sources of funds to support the commercial paper program include existing funds on hand or the issuance of alternative debt, such as revenue bonds.

General Obligation Bonds

In 1984, the District refunded its then-outstanding general obligation bonds. Although the refunding constituted an in-substance defeasance of the prior lien on revenues securing the bonds, the general obligation bonds continue to be general obligations of the District, secured by a lien upon the real property of the District and a guarantee by the Association. As of April 30, 2002, the amount of defeased general obligation bonds outstanding was \$2.5 million.

Line-of-Credit Arrangements

The District has \$525.0 million in revolving line-of-credit agreements supporting the commercial paper program. These agreements have various covenants, with which the District is in compliance at April 30, 2002.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

(6) Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments identified in the following items in the accompanying Combined Balance Sheets.

Investments in Marketable Securities

The District invests in U.S. government obligations, certificates of deposit and other marketable investments. Such investments are classified as other investments, segregated funds, cash and cash equivalents or temporary investments in the accompanying Combined Balance Sheets depending on the purpose and duration of the investment. The fair value of marketable securities with original maturities greater than one year is based on published market data. The carrying amount of marketable securities with original maturities of one year or less approximates their fair value because of their short-term maturities.

Long-Term Debt

The fair value of the District's revenue bonds, including the current portion, was estimated by using pricing scales from independent sources. The carrying amount of commercial paper approximates the fair value because of its short-term maturity.

Other Current Assets and Liabilities

The carrying amounts of receivables, accounts payable, customers' deposits and other current liabilities in the accompanying Combined Balance Sheets approximate fair value because of their short-term maturities.

The estimated carrying amounts and fair values of the District's financial instruments, at April 30, are as follows (in thousands):

	<u>2002</u>		<u>2001</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Investments in marketable securities:				
Other investments	\$ 34,000	\$ 34,579	\$ 13,000	\$ 13,117
Segregated funds	449,340	451,144	424,614	422,788
Temporary investments	185,463	186,294	348,031	348,060
Long-term debt	3,148,271	3,245,100	3,170,213	3,294,173

Accounting for Debt and Equity Securities

The District's investments in debt securities are reported at amortized cost if the intent is to hold the security to maturity. At April 30, 2002, the District's investments in debt securities have maturity dates ranging from May 3, 2002 to February 28, 2012. Other debt and equity securities are reported at market, with unrealized gains or losses included as a separate component of Accumulated Net Revenues and Other Comprehensive Income. The District's investments in debt and equity securities are included in temporary investments, segregated funds and non-utility property and other investments in the accompanying Combined Balance Sheets.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

(7) Employee Benefit Plans and Incentive Programs

Defined Benefit Pension Plan and Other Post-retirement Benefits

SRP's Employees' Retirement Plan (the Plan) covers substantially all employees. The Plan is funded entirely from SRP contributions and the income earned on invested Plan assets. No contributions were required in fiscal years 2002 or 2001.

The Plan assets consist primarily of stocks, U.S. government obligations, corporate bonds and real estate funds. The unrecognized net transition asset is being amortized over 15 years, beginning in 1988.

SRP provides a non-contributory defined benefit medical plan for retired employees and their eligible dependents and a non-contributory defined benefit life insurance plan for retired employees. Employees are eligible for coverage if they retire at age 65 or older with at least five years of vested service under the Plan (ten years for those hired January 1, 2000 or later), or any time after attainment of age 55 with a minimum of ten years of vested service under the Plan (20 years for those hired January 1, 2000 or later). The funding policy is discretionary and is based on actuarial determinations. The unrecognized transition obligation is being amortized over 20 years, beginning in 1994.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

The following tables outline changes in benefit obligations, plan assets, the funded status of the plans and amounts included in the combined financial statements as of April 30, based on January 31 valuation dates (in thousands):

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Change in benefits obligation:				
Benefit obligation at beginning of year	\$567,300	\$ 510,800	\$ 215,400	\$ 170,400
Service cost	17,000	14,300	5,600	4,400
Interest cost	41,600	40,100	15,800	13,400
Amendments	—	8,400	—	—
Actuarial loss	48,600	17,700	52,100	34,200
Benefits paid	(29,800)	(24,000)	(9,000)	(7,000)
Benefit obligations at end of year	<u>\$644,700</u>	<u>\$ 567,300</u>	<u>\$ 279,900</u>	<u>\$ 215,400</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$705,100	\$ 699,100	\$ —	\$ —
Actual return on plan assets	(35,700)	30,000	—	—
Employer contributions	—	—	9,000	7,000
Benefits paid	(29,800)	(24,000)	(9,000)	(7,000)
Fair value of plan assets at end of year	<u>\$639,600</u>	<u>\$ 705,100</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status	\$ (5,000)	\$ 137,800	\$(279,900)	\$(215,400)
Unrecognized transition obligation (asset)	—	(4,000)	62,300	67,900
Unrecognized net actuarial (gain) loss	37,000	(111,000)	83,500	32,500
Unrecognized prior service cost ...	8,700	9,900	—	—
Post January 31 contributions	—	—	3,000	1,800
Net asset (liability) recognized ..	<u>\$ 40,700</u>	<u>\$ 32,700</u>	<u>\$(131,100)</u>	<u>\$(113,200)</u>
Prepaid benefit cost	\$ 40,700	\$ 32,700	\$ —	\$ —
Accrued benefit liability	—	—	(131,100)	(113,200)
Net amount recognized	<u>\$ 40,700</u>	<u>\$ 32,700</u>	<u>\$(131,100)</u>	<u>\$(113,200)</u>

The Plan was amended to provide a retiree pension enhancement, effective January 1, 2001, and to provide enhanced benefits for selected employees effective September 19, 2000.

The District internally funds its other post-retirement benefits obligation. At April 30, 2002 and 2001, \$163.9 million and \$148.0 million of segregated funds, respectively, were designated for this purpose.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

Weighted average assumptions used to calculate actuarial present values of benefit obligations were as follows:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Discount rate	7.25%	7.5%	7.25%	7.5%
Expected return on plan assets	8.75%	9.0%	N/A	N/A
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%

For employees who retire at age 65 or younger, for measurement purposes, a 9.0% annual increase before attainment of age 65 and a 11.0% annual increase on and after attainment of age 65 in per capita costs of health care benefits were assumed during 2002; these rates were assumed to decrease uniformly until equaling 5.25% in all future years.

Components of net periodic benefit (gain) costs for the years ended April 30, are as follows (in thousands):

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Service cost	\$ 17,000	\$ 14,300	\$ 5,600	\$ 4,400
Interest cost	41,600	40,100	15,800	13,400
Expected return on plan assets	(61,300)	(59,100)	—	—
Amortization of transition obligation (asset)	(4,000)	(4,000)	5,700	5,700
Recognized net actuarial loss (gain)	(2,400)	(2,400)	800	300
Amortization of prior service cost	1,100	400	—	—
Net periodic benefit (gain) cost	<u>\$ (8,000)</u>	<u>\$ (10,700)</u>	<u>\$ 27,900</u>	<u>\$ 23,800</u>

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effect (in thousands):

	<u>One- Percentage- Point Increase</u>	<u>One- Percentage- Point Decrease</u>
Effect on total service cost and interest cost components	\$ 2,600	\$ (2,400)
Effect on post-retirement benefit obligation	\$ 38,100	\$ (33,700)

Defined Contribution Plan

SRP's Employees' 401(k) Plan (the 401(k) Plan) covers substantially all employees. The 401(k) Plan receives employee contributions and partial employer matching contributions. Employer matching contributions to the 401(k) Plan were \$7.1 million and \$5.9 million during fiscal years 2002 and 2001, respectively.

Employee Incentive Compensation Program

SRP has an incentive compensation program covering substantially all regular employees. The incentive compensation amount is based on achievement of pre-established targets. These targets were not met in fiscal year 2002. An accrual of \$28.2 million for fiscal year ended

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

April 30, 2001 is included in other current liabilities in the accompanying Combined Balance Sheets. This liability is stated net of a receivable from participants in jointly owned electric utility plants of \$3.3 million at April 30, 2001.

(8) Interests in Jointly-Owned Electric Utility Plants:

The District has entered into various agreements with other electric utilities for the joint ownership of electric generating and transmission facilities. Each participating owner in these facilities must provide for the cost of its ownership share. The District's share of expenses of the jointly-owned plants is included in operating expenses in the accompanying Combined Statements of Net Revenues.

The following table reflects the District's ownership interest in jointly-owned electric utility plants as of April 30, 2002 (in thousands):

<u>Generating Station</u>	<u>Ownership Share</u>	<u>Plant in Service</u>	<u>Accumulated Depreciation</u>	<u>Construction Work in Progress</u>
Four Corners (NM) (Units 4 & 5)	10.00%	\$ 102,564	\$ (83,510)	\$ 2,991
Mohave (NV) (Units 1 & 2)	20.00%	198,131	(86,905)	8,703
Navajo (AZ) (Units 1, 2 & 3)	21.70%	345,017	(203,704)	1,075
Hayden (CO) (Unit 2)	50.00%	110,939	(61,050)	1,902
Craig (CO) (Units 1 & 2)	29.00%	242,759	(148,518)	3,119
PVNGS (AZ) (Units 1, 2 & 3)	17.49%	1,103,240	(775,599)	36,107
		<u>\$2,102,650</u>	<u>\$(1,359,286)</u>	<u>\$53,897</u>

The District acts as the operating agent for the participants in the Navajo Generating Station (NGS). On November 30, 2001, the District acquired half (10%) of the shares in the Mohave Generating Station held by the Los Angeles Department of Water and Power, thereby increasing the District's total share to 20%.

(9) Capital Lease:

In fiscal year 2001, the District entered into a ten-year contract with Reliant Energy Desert Basin, LLC (Reliant) for the long-term exclusive purchase of power and energy produced at Reliant's facility located in Central Arizona. The amount of capacity available to the District is approximately 598 MW annually. The payments include costs for both capacity and operation and maintenance of the facility. Upon inception of the contract, the present value of the fixed payment attributable to capacity costs meets the requirement for accounting for this contract as a capital lease. Accordingly, in fiscal year 2002, the District recorded the present value of the capacity payments of \$292.1 million as utility plant and the related capital lease obligation in deferred credits and other non-current liabilities (long-term portion) and other current liabilities (short-term portion). At April 30, 2002, the utility plant under the capital lease was \$277.0 million, net of accumulated amortization of \$15.1 million and the capital lease obligation was \$276.7 million. The capacity payments required under the agreement total \$40.9 million annually through fiscal year 2007, and \$149.2 million thereafter. The operation and maintenance payments required under the agreement total \$21.5 million annually through fiscal year 2007, and \$78.5 million thereafter.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

(10) Regulatory Issues:

Fundamental Changes in the Electric Utility Industry

The District historically operated in a highly-regulated environment in which it had an obligation to deliver electric service to customers within its service area. In May 1998, the Arizona Electric Power Competition Act (the Act) authorized competition in the retail sale of electric generation, recovery of stranded costs and competition in billing, metering and meter reading.

The Act allows a temporary surcharge on electric distribution service prices to pay for all or a portion of unmitigated stranded costs of electric generation service incurred as a direct result of the onset of competition. Such costs must have been incurred to serve customers in Arizona before December 26, 1996. This surcharge may not continue past December 31, 2004, and must not cause prices to exceed the prices in effect on December 30, 1998.

The legislature, in May 2002, established a study committee to examine the status of deregulation and determine whether the Act should be modified. The study committee will be meeting over the summer of 2002. It is unclear at this point if changes to the Act will result.

In 1999, the Arizona Corporation Commission (the Commission), which regulates public service corporations, approved final rules for retail electric competition. The Commission subsequently entered into settlement agreements with each of its regulated utilities, establishing terms and conditions precedent to a framework for stranded cost recovery and unbundled tariffs. Beginning January 1, 2001, all customers were given the right to select an alternative generation provider. In recent months, due to California's unsuccessful experience with competition and other market developments, the Commission began a review of its existing competition rules to determine whether changes or additions were necessary to provide additional safeguards for consumers. The Commission is focusing its attention on such issues as asset transfers, affiliated interest rules and market power. The process is ongoing and the District is uncertain of the impact any changes to retail electric competition may have on its operations or financial condition.

The Federal Energy Regulatory Commission (FERC) regulates the electric utility industry under the authority of various statutes. FERC issued rules in 1996 mandating, among other things, open nondiscriminatory access to transmission lines. The rules require comparable transmission service in order to use the transmission systems of public utilities. The District has filed a comparable open access transmission tariff to ensure reciprocal access, pursuant to rules FERC developed for non-jurisdictional entities like the District. In addition, FERC issued its Order No. 2000 in December 1999, requiring all jurisdictional public utilities that own, operate or control interstate transmission to attempt to develop proposals for regional transmission organizations (RTO). The District is participating in the development of an RTO for the Southwest.

The Changing Regulatory Environment

The service area of the District was opened to competition in generation beginning June 1, 2000, and to competition in billing, metering and meter reading beginning December 31, 2000. The District's electric distribution area remains regulated by its Board and the District will not provide distribution services in the distribution areas of other utilities.

The District's price plans have been unbundled since 1999. The District reviewed its price plans in November 2001 and approved, among other things, a Fuel and Purchase Power Adjustment Mechanism (Adjustment Mechanism) that became effective May 1, 2002. The

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

Adjustment Mechanism provides for a prospective collection of amounts for fuel and purchased power costs above predetermined levels. Other changes to the District's price plans became effective December 31, 2001. The District prices its electric generation based upon market and cost of service factors.

Since December 31, 1998, the District has been recovering stranded costs through a competitive transition charge (CTC) paid by all distribution customers. Effective June 2004, the District will stop collecting the CTC. In fiscal year 2001 management determined, based upon projections using current economic conditions, that the full CTC of \$795.0 million may not be collected. Management, therefore, reduced the amount of the CTC asset and took a charge to depreciation and amortization expense of \$85.0 million as of April 30, 2001. Further, as part of the November 2001 price plans review, the District reviewed the level of its CTC associated with stranded cost recovery and elected to retain the CTC at its current level until June 1, 2004.

Through a surcharge to the District's transmission and distribution customers, the District recovers the costs of programs benefiting the general public, such as discounted rates for the elderly or impoverished, efficiency programs, demand-side management measures, renewable energy programs, economic development, research and development and nuclear decommissioning, including the cost of spent fuel storage. These surcharges have been separately identified and included in the District's price plans for the regulated portion of its operations.

Regulatory Accounting

The District accounts for the financial effects of the regulated portion of its operations in accordance with the provisions of SFAS No. 71, which requires cost-based, rate-regulated utilities to reflect the impacts of regulatory decisions in their financial statements.

As a result of the Board actions in August 1998 to open the District's service area to competition in generation, the District discontinued the application of SFAS No. 71 for its electric generation operations in fiscal year 1999. From that time forward, the provisions of SFAS No. 101, *"Regulated Enterprises: Accounting for the Discontinuation of Application of FASB Statement No. 71,"* have been applied to the portion of its business no longer meeting the provisions of SFAS No. 71.

In fiscal year 1999, the District evaluated the carrying amounts of its generation operations in relation to future cash flows expected to be generated from their use in a competitive environment and determined that \$850.2 million of these assets were impaired. Impairment of \$631.8 million was attributable to generation operations, and \$163.7 million was attributable to long-term energy contracts. Of the total impairment, a maximum of \$795.0 million may be recovered through the CTC, and such amount was recorded as a regulatory asset (CTC regulatory asset). The CTC regulatory asset will be recovered through the competitive transition charge over the period beginning December 31, 1998, and continuing through May 31, 2004. Since December 31, 1998, the District has amortized or charged \$530.5 million of CTC asset to depreciation and amortization expense and recovered \$460.1 million through CTC revenue.

Regulatory assets for spent nuclear fuel storage are being amortized over the life of the nuclear plant. Bond defeasance regulatory assets are being amortized over different periods, beginning in fiscal year 1997 and ending in fiscal year 2031. Regulatory assets are included in deferred charges and other assets on the accompanying Combined Balance Sheets.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

Deferred charges and other assets consist primarily of the following at April 30 (in thousands):

	<u>2002</u>	<u>2001</u>
CTC regulatory asset	\$264,931	\$392,097
Bond defeasance regulatory asset	84,475	36,600
Spent nuclear fuel storage regulatory asset	22,209	21,974
Prepaid pension benefits	40,700	32,700
Other	45,976	33,039
	<u>\$458,291</u>	<u>\$516,410</u>

If events were to occur making full recovery of these regulatory assets no longer probable, the District would be required to write off the remaining balance of such assets as a one-time charge to net revenues.

Deferred credits and other non-current liabilities consist primarily of the following at April 30 (in thousands):

	<u>2002</u>	<u>2001</u>
Capital lease obligation	\$251,364	\$ —
Provision for contract losses	119,460	132,741
Accrued post-retirement benefit liability	131,100	113,200
Accrued decommissioning costs	93,532	84,946
Derivatives market valuation	39,289	—
Accrued spent nuclear fuel storage	25,657	24,915
Other	84,106	90,269
	<u>\$744,508</u>	<u>\$446,071</u>

Operating results from the separable portion of the District's operations not meeting the provisions of SFAS No. 71 are as follows (in thousands):

	<u>Fiscal Year Ended April 30, 2002</u>	<u>Fiscal Year Ended April 30, 2001</u>
Operating revenues	\$1,459,451	\$2,277,240
Operating expenses	1,387,367	1,770,065
Net operating revenues from non-regulated operations	<u>\$ 72,084</u>	<u>\$ 507,175</u>

Utility plant assets used in the separable portion of the District's operations no longer meeting the provisions of SFAS No. 71 are as follows at April 30 (in thousands):

	<u>2002</u>	<u>2001</u>
Electric plant in service	\$ 3,887,948	\$ 3,460,089
Less accumulated depreciation	(2,119,902)	(1,985,330)
Net utility plant assets used in non-regulated operations ...	<u>\$ 1,768,046</u>	<u>\$ 1,474,759</u>

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

(11) Commitments:

Subsidiary Guarantees

The District acts as guarantor for New West Energy's contractual obligations as necessary to satisfy performance security requirements under agreements with utility distribution companies, brokers and counterparties for financial hedge transactions and power purchasers and sellers. No payments were made under these guarantees during fiscal years 2002 and 2001.

Improvement Program

The Improvement Program represents SRP's six-year plan for major construction projects and capital expenditures for existing generation, transmission, distribution and irrigation assets. For the 2003-2008 period, SRP estimates capital expenditures of approximately \$2.9 billion. Major construction projects include expansion of generation at the Santan Generating Station, as well as other key strategic distribution and transmission projects.

Long-Term Power Contracts

The District entered into three contracts, collectively, with the United States Bureau of Reclamation (United States), the Western Area Power Administration and the Central Arizona Water Conservation District (CAWCD) for the long-term sale, through September 2011 to the District, of power and energy associated with the United States' entitlement to NGS. The amount of energy available to the District varies annually and is expected to decline over the life of the contracts. The District pays a fixed amount under the contracts, pays the cost of NGS generation and other related costs, and supplies energy at cost to CAWCD for Central Arizona Project facilities. The fixed portion of the District's payment obligations under the three contracts totals \$47.0 million annually through fiscal year 2007, and \$207.4 million thereafter. Of the total obligation, \$25.2 million annually through fiscal year 2007 and \$111.3 million thereafter are unconditionally payable regardless of the availability of power. Payments under these contracts totaled \$74.6 million and \$76.5 million in fiscal years 2002 and 2001, respectively.

The District entered into two other long-term power purchase agreements to obtain a portion of its projected load requirements through 2011. Minimum payments under these contracts are \$38.9 million annually through fiscal year 2007 and \$150.0 million thereafter. Total payments under these two contracts, including the minimum payments, were \$61.7 million and \$62.9 million in fiscal years 2002 and 2001, respectively. In conjunction with the impairment analysis performed on generation-related operations, the District has recorded provisions for losses on these contracts. The provisions recorded in August 1998, of \$163.7 million, are being amortized over the life of the contracts, commencing January 1, 1999. Amortization of \$13.3 million has been reflected as a reduction in purchased power expense in fiscal years 2002 and 2001. The remaining liability at April 30, 2002 of \$119.5 million is included in deferred credits and other non-current liabilities in the Combined Balance Sheets.

Fuel Supply

At April 30, 2002, minimum payments under long-term coal supply contract commitments are estimated to be \$148.4 million in fiscal year 2003, \$153.4 million in fiscal year 2004, \$144.6 million in fiscal year 2005, \$118.3 million in fiscal year 2006, \$90.7 million in fiscal year 2007, and \$345.4 million thereafter.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

(12) Contingencies:

Nuclear Insurance

Under existing law, public liability claims arising from a single nuclear incident are limited to \$9.5 billion. PVNGS participants insure for this potential liability through commercial insurance carriers to the maximum amount available (\$200.0 million) with the balance covered by an industry-wide retrospective assessment program as required by the Price-Anderson Act. If losses at any nuclear power plant exceed available commercial insurance, the District could be assessed retrospective premium adjustments. The maximum assessment per reactor per nuclear incident under the retrospective program is \$88.1 million including a 5% surcharge, applicable in certain circumstances, but not more than \$10.0 million per reactor may be charged in any one year for each incident.

Based on the District's ownership share in PVNGS, the maximum potential assessment would be \$46.2 million, including the 5% surcharge, but would be limited to \$5.2 million per incident in any one year.

Spent Nuclear Fuel

Under the Nuclear Waste Policy Act of 1982, the District pays 1/10 of one cent per kWh on its share of net energy generation at PVNGS to the Department of Energy (DOE). The DOE was responsible for the selection and development of repositories for permanent storage and disposal of spent nuclear fuel not later than December 31, 1998. Because of the significant delays in the DOE's schedule, it cannot be determined when the DOE will accept waste from PVNGS or from the other owners of spent nuclear fuel. It is unlikely, due to PVNGS' position in DOE's queue for receiving spent fuel, that Arizona Public Service Company (APS), the operating agent of PVNGS, will be able to initiate shipments to DOE during the licensed life of PVNGS. Accordingly, APS is constructing an on-site dry cask storage facility to receive and store PVNGS spent fuel. The facility is expected to receive and store spent fuel at the end of 2002.

The District's share of on-site interim storage at PVNGS is estimated to be \$26.5 million for costs to store spent nuclear fuel from inception of the plant to date, and \$1.8 million per year going forward. These costs have been included in the District's regulated operations price plans for transmission and distribution.

Navajo Nation Lawsuit

In June 1999, the Navajo Nation filed a lawsuit in the United States District Court in Washington D.C., alleging that the coal supplier for the Navajo and Mohave Generating Stations (Peabody Coal Company), Southern California Edison Company, the District, and other defendants, had induced the United States to breach its fiduciary duty to the Navajo Nation and had violated federal racketeering statutes. The lawsuit arises out of negotiations that culminated in 1987 with amendments to the coal royalty and lease agreements for mining coal for the Navajo and Mohave Generating Stations. The suit alleges \$600.0 million in damages and seeks treble damages along with punitive damages of not less than \$1.0 billion. In March 2001, the Hopi Tribe intervened in the suit. However, the claims of both the Navajo Nation and the Hopi Tribe have been dismissed in their entirety with respect to the District. While the District has moved for the entry of final judgment in its favor, the Navajo Nation and Hopi Tribe have moved for restoration of the dismissed claims. These motions are pending. If final judgment is entered in favor of the District, it is anticipated that the Navajo Nation and Hopi Tribe will appeal such a judgment.

Previously, the Navajo Nation had filed a lawsuit against the United States Government based on similar allegations. That lawsuit had been dismissed, but on appeal, it was reinstated

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

and the Court of Appeals, in August 2001, held that the United States had breached its fiduciary duty to the Navajo Nation, and that a claim for damages was within the jurisdiction of the Court of Federal Claims. On March 15, 2002, the United States filed a petition for review of that decision with the United States Supreme Court. The District does not believe that these disputes will have material adverse effects on its operations or financial condition.

Environmental

The SRP is subject to numerous legislative, administrative and regulatory requirements relative to air quality, water quality, hazardous waste disposal and other environmental matters. SRP conducts ongoing environmental reviews of its properties for compliance and to identify those properties it believes may require remediation. Such requirements have resulted and will continue to result in increased costs associated with operation of existing properties.

Air Quality

The federal Clean Air Act, as amended, among other things, requires reductions in sulfur dioxide and nitrogen oxide emissions from electric generating stations and regulates emissions of hazardous air pollutants by generating stations.

In December 1999, the participants in Mohave Generating Station settled a lawsuit alleging numerous and continuing violations of opacity and sulfur dioxide standards. Under the terms of the settlement, the participants must install by January 1, 2006, a sulfur dioxide scrubber and other pollution control equipment. Major plant modifications, including emissions controls, are required for continued operation as a coal-fired plant. Capital costs are estimated at \$411.6 million, of which the District's share would be \$82.3 million. These costs are included in the capital contingencies portion of the 2003-2008 Improvement Program. However, the Hopi Tribe has demanded that pumping water for the slurry pipeline cease by the end of 2005. The Mohave Participants have refused to commit to install pollution abatement equipment without reasonable assurance that water would be available to deliver coal to the plant; therefore, because of the time required to order and install the pollution abatement equipment, the plant will likely cease operations at the end of 2005 for some period of time. The District believes that it will be able to replace the energy from Mohave from other sources. Although the Mohave Participants and the Tribe are working diligently to reach a settlement, it is not certain if, and when, a resolution will be reached. If a settlement is not reached, the District believes that the site can continue as a generation source and options for such are under review.

In January 2001, the participants in the Craig Generating Station agreed to settle a lawsuit that alleged, among other things, numerous violations of opacity standards by Craig Units 1 and 2. Under the terms of the settlement, the participants must install fabric filter baghouses and other equipment on Units 1 and 2 by December 31, 2003 and June 30, 2004, respectively. Capital costs are estimated at \$92.8 million, of which the District's share would be \$26.9 million. These costs are included in the capital contingencies portion of the 2003-2008 Improvement Program.

The U.S. Environmental Protection Agency (EPA) is in the process of developing regulations for the control of mercury emissions from coal and oil-fired utility boilers. Regulations are scheduled to be proposed in late 2003 with a compliance date of late 2007. These regulations will affect all new and existing units. The EPA has not yet determined the level of control that will be required. This rule could affect the District's coal-fired units and the District is still uncertain of the impact, which could range from no change to the installation of new emission controls.

President Bush recently proposed a Clear Skies Initiative (CSI) intended to achieve dramatic reductions of sulfur dioxide (SO₂), oxides of nitrogen (NO_x) and mercury (Hg) emissions in a

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

coordinated and phased manner. The administration expects that the CSI will result in substantial power plant emission reductions and provide the electric power generation industry with regulatory certainty while maintaining fuel supply diversity. A number of other bills are also under consideration in Congress that call for significant reductions in SO₂, NO_x and Hg as well as carbon dioxide (CO₂). The current Clean Air Act contains several provisions that are directed at emissions of SO₂, NO_x, and Hg. The District is planning on future emission reductions at its coal-fired power plants as a result of these legislative and regulatory initiatives. The specific level of reduction and compliance cost will not be known until new legislation is passed or the EPA and the states finalize existing Clean Air Act regulatory programs.

Coal Mine Reclamation

In management's opinion, there are sufficient accruals in the accompanying combined financial statements for the District's obligation to reimburse certain coal providers for amounts due for certain coal reclamation costs. However, the District is contesting certain other coal mine reclamation costs. Neither the District's responsibility or the ultimate amount of liability, if any, can be determined at this time. Management does not believe that the outcome of these matters will have a material adverse effect on the District's financial position or results of operations.

Gas Supply

The District has a full requirements contract with El Paso Natural Gas Company (El Paso) for the transportation of natural gas. This contract is under challenge at FERC from producers and marketers who are unhappy with the uncertainty of their deliveries on the El Paso System. At a hearing on the matter held on May 30, 2002, FERC approved the issuance of an order directing El Paso to convert its full requirements customers to fixed entitlements. While the outcome of this matter is unsettled, the District's available transportation for existing and planned gas generation facilities could be substantially reduced. The financial impact of this dispute cannot be determined, but it could be significant. The District is considering alternatives, including gas storage and construction of additional pipeline, in order to mitigate the impact of an adverse outcome.

California Energy Market Issues

In 1996, California adopted a restructuring program for its electric utility industry that combined generation divestiture and reliance on wholesale spot markets with rigid retail price controls. The situation was further compounded by significant increases in fuel costs, transmission constraints between northern and southern California, and a relatively dry period in the Northwest that significantly reduced the amount of hydroelectric power available. The result was a dysfunctional energy market, exponentially high wholesale prices, bankruptcy of California's largest investor-owned utility (Pacific Gas and Electric Company), and inadequate resources to serve customers.

Multiple federal and state agencies, as well as individual claimants, are pursuing numerous investigations and lawsuits, alleging manipulation and other improprieties, including antitrust violations, in connection with the wholesale energy market in California. Because the District was a market participant during the relevant time period (2000 and 2001), the District, along with other participants in the California market, has been named as a defendant in several of these suits and investigations. The District denies any wrongdoings and is cooperating with the federal and state agencies.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

Indian Matters

From time to time, SRP is involved in litigation and disputes with various Indian tribes on issues concerning regulatory jurisdiction, royalty payments, taxes and water rights, among others (see Navajo Nation Lawsuit and Air Quality above). Resolution of these matters may result in increased operating expenses.

Other Litigation

In the normal course of business, SRP is exposed to various litigation or is a defendant in various litigation matters. In management's opinion, the ultimate resolution of these matters will not have a material adverse effect on SRP's financial position or results of operations.

Self-Insurance

The District maintains various self-insurance retentions for certain casualty and property exposures. In addition, the District has insurance coverage for amounts in excess of its self-insurance retention levels. The District provides for reserves based on management's best estimate of claims, including incurred but not reported claims. In management's opinion, the reserves established for these claims are adequate and any changes will not have a material adverse effect on the District's financial position or results of operations.

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APPENDIX B — Summary of the Resolution

SUMMARY OF THE RESOLUTION

The following is a summary of certain provisions of the Resolution Concerning Revenue Bonds, as amended. Such summary does not purport to be complete, and reference is made to the Resolution for full and complete statements of such provisions.

Certain Definitions

The following are definitions in summary form of certain terms contained in the Resolution and used herein and in the Official Statement:

Accounting Practice: Generally accepted accounting principles appropriate to the electric utility industry.

Accrued Aggregate Debt Service: As of any date of calculation, an amount equal to the sum of the amounts of accrued Debt Service with respect to all Series calculating the accrued Debt Service with respect to each Series at an amount equal to the sum of (i) interest on the Revenue Bonds of such Series accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installments for such Series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month.

Aggregate Debt Service: For any fiscal year, and as of any date of calculation, the sum of the amounts of Debt Service for such year with respect to all Series.

Cost of Construction: The District's cost of physical construction, costs of acquisition by or for the District of a Project for the Electric System, and costs of the District incidental to such construction or acquisition, the cost of any indemnity and surety bonds and premiums on insurance during construction, engineering expenses, legal fees and expenses, cost of financing, audits, fees and expenses of the Fiduciaries, amounts, if any, required by the Resolution or any Series Resolution to be paid into the Debt Service Fund upon the issuance of any Series of Revenue Bonds, payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the District (other than the Revenue Bonds) incurred for a Project for the Electric System, costs of machinery, equipment and supplies and initial working capital and reserves required by the District for the commencement of operation of a Project for the Electric System, and any other costs properly attributable to such construction or acquisition, as determined by Accounting Practice, and shall include reimbursement to the District for any such items of Cost of Construction theretofore paid by the District. Any Series Resolution may provide for additional items to be included in the aforesaid Cost of Construction.

Debt Reserve Requirement: As of any date of calculation, an amount equal to one-half of the average annual Debt Service on all Outstanding Revenue Bonds, but not to exceed \$99,277,000.

Debt Service: For any period, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest accruing during such period on Revenue Bonds of such Series (except to the extent that such interest is to be paid from deposits in the Debt Service Account in the Debt Service Fund made from Revenue Bond proceeds, as described in the Resolution), and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, if there be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment). Such interest and Principal Installments for such Series shall be calculated on the assumption that no Revenue Bonds of such Series Outstanding at the date of

calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Electric System: Properties and assets to which legal title is vested in the District and was so vested on the date of adoption of the Resolution and all properties and assets acquired by the District as renewals and replacements, additions and expansion, and improvements thereto, as recorded in the books of the District pursuant to Accounting Practices, but shall not include properties and assets that may be hereafter purchased, constructed or otherwise acquired by the District as a separate system or facility, the revenue of which may be pledged to the payment of bonds or other forms of indebtedness issued to purchase, construct or otherwise acquire such separate system or facility and shall not include properties or assets charged to Irrigation Plant.

Fiscal Year: The period commencing May 1 and ending April 30 for each twelve-month period.

Investment Securities: Any of the following, if and to the extent the same are at the time legal for investment of District funds:

(i) Direct obligations of, or obligations guaranteed by, the United States of America or the State of Arizona;

(ii) Certificates of deposit, and bankers' acceptances whose maturity value shall not be greater than $\frac{1}{25}$ of the capital and surplus of the accepting bank;

(iii) Bonds, debentures or notes issued by any of the following Federal Agencies: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Bank System; Export-Import Bank of Washington; Federal Land Banks; the Federal National Mortgage Association (including Participation Certificates issued by such Association); or the Government National Mortgage Association; the United States Postal Service; the Tennessee Valley Authority; or any Agency or instrumentality of the United States of America which shall be established for the purpose of acquiring the obligations of any of the foregoing or otherwise providing financing therefore;

(iv) Public Housing Bonds issued by public agencies and municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract or Contracts with the United States of America; or Project Notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; and

(v) Direct and general obligations of any State within the territorial United States, to the payment of the principal of and interest on which the full faith and credit of such State is pledged, provided that, at the time of their purchase under the Resolution, such obligations are rated in any of the three highest rating categories by a nationally recognized bond rating agency.

Irrigation Plant: All land and land rights, structure, facilities and equipment used or usable by the District or the Salt River Valley Water Users' Association solely for the development, storage, transportation, distribution and delivery of water to the owners or occupants of the lands within the Salt River Project having rights thereto or to anyone acting on behalf thereof pursuant to contracts with the Salt River Valley Water Users' Association or the District.

Operating Expenses: The District's expenses of operating the Electric System, including all costs of purchased power, operation, maintenance, generation, production, transmission, distribution, repairs, replacements, engineering, transportation, administrative and general, audit, legal, financial, pension, retirement, health, hospitalization, insurance, taxes, and any other expenses actually paid or accrued, without limitation, expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice and any other

expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice, and any other expenses incurred or payments by the District under the provisions of the Resolution or in discharge of obligations required to be paid by local, state or federal laws, all to the extent properly allocable to the Electric System under Accounting Practice. Operating Expenses shall not include any costs or expenses for new construction, falling water used in hydroelectric operations of the District, charges for depreciation, voluntary payments in lieu of taxes and operation, maintenance, repairs, replacement and construction of the Irrigation Plant.

Principal Installment: As of any date of calculation, and with respect to any Series of Revenue Bonds, (i) the principal amount of Revenue Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for bonds of such Series, plus the amount of sinking fund redemption premiums, if any, which would be applicable upon redemption of such Revenue Bonds in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments or (iii) if such future dates coincide as to different Revenue Bonds of such Series, the sum of such principal amount of Revenue Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

Prior Lien Bonds: Outstanding bonds of the District authorized and issued pursuant to the Prior Lien Bond Resolutions, and all outstanding loans with the United States of America ("U.S. Government Loans"), heretofore, or hereafter made or assumed by the District which have a prior lien on revenues of the Electric System. The bonds issued under the Prior Lien Bond Resolutions have been defeased and are no longer deemed to be outstanding under the Resolution.

Project: The purchase, replacement, construction, leasing or acquisition of any real or personal property or interest therein, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire, or the improvement, reconstruction, extension or addition to any real or personal property, works or facilities owned or operated by the District, or any program of development involving real or personal property, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire or the improvement, reconstruction, extension or addition to such program.

Revenues: (i) All revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System and (ii) interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Resolution and paid into the Revenue Fund.

Revenues Available for Debt Service: For any fiscal year or period of 12 calendar months shall mean all revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System for such year or period less the amounts of the Operating Expenses for such year or period.

Trustee: The Trustee is currently The Bank of New York.

(Resolution, Section 101).

Pledge of Revenues and Funds

The payment of the principal and redemption price of, and interest on, the Revenue Bonds is secured by (i) the proceeds of sale of the Bonds, (ii) the Revenues, and (iii) all Funds established by the Resolution, including the investments, if any, thereof. The pledge, insofar as it relates to the Revenues, is subject and subordinate in all respects to the pledges and liens

created by the U.S. Government Loans and, in addition, is subject to transfer on the first day of the month of Revenues to the General Fund of the District, after all payments required by the Resolution have been made.

(Resolution, Section 501).

Additional Bonds

The District may issue additional parity Revenue Bonds in compliance with the Resolution if, among other things, (a) Revenues Available for Debt Service, adjusted as provided in the Resolution, of any 12 consecutive calendar months out of the 24 calendar months next preceding the issuance of such additional Revenue Bonds are not less than 1.20 times the maximum total of the Debt Service and the U.S. Government Loan debt service for any succeeding fiscal year on all Revenue Bonds and U.S. Government Loans which will be outstanding immediately prior to the issuance of the Additional Revenue Bonds, (b) estimated Revenues Available for Debt Service, adjusted as provided in the Resolution, for each of the five fiscal years immediately following the issuance of such proposed additional Revenue Bonds are not less than 1.35 times the total, for each such respective fiscal year, of the Debt Service and the U.S. Government Loan debt service on all Bonds and all U.S. Government Loans which will be outstanding immediately subsequent to the issuance of such proposed additional Revenue Bonds and (c) the estimated Revenues Available for Debt Service, adjusted as provided in the Resolution, for the fifth fiscal year immediately following the issuance of such proposed additional Revenue Bonds are not less than 1.35 times the maximum total Debt Service and U.S. Government Loan debt service for any succeeding year on all Revenue Bonds and all U.S. Government Loans which will be outstanding immediately subsequent to the issuance of such proposed additional Revenue Bonds.

In determining the amount of Revenues Available for Debt Service, the Authorized Officer of the District may adjust the Revenues Available for Debt Service by adding thereto the following:

(i) in the event the District shall have acquired an operating utility or facility subsequent to the beginning of the 12-month period selected pursuant to clause (a) above, an estimate made by an Authorized Officer of the District of such additional Revenues Available for Debt Service for such 12-month period which would have resulted had such operating utility or facility been acquired at the beginning of such 12-month period; and

(ii) in the event any adjustment of rates with respect to the Electric System shall have become effective subsequent to the beginning of the 12-month period selected pursuant to clause (a) above, an estimate made by an Authorized Officer of the District of such additional Revenues Available for Debt Service for such 12-month period which would have resulted had such rate adjustment been in effect for the entire period.

In determining the amount of estimated Revenues Available for Debt Service for the purpose of clauses (b) and (c), the Authorized Officer of the District with the approval of the Consulting Engineers may adjust the estimated Revenues Available for Debt Service by adding thereto any estimated increase in revenue resulting from any increase in electric rates which, in the opinion of the Authorized Officer of the District and the Consulting Engineers, are economically feasible and reasonably considered necessary based on projected operations for such five-year period.

(Resolution, Section 204).

Refunding Bonds

One or more Series of Revenue Bonds ("Refunding Bonds") may be issued to refund all or any part of the Revenue Bonds of one or more Series then outstanding.

The issuance of Refunding Bonds to refund outstanding Revenue Bonds is subject to the condition, among others, that the District certify that the Aggregate Debt Service for the then current and each future fiscal year shall not be increased by such refunding.

(Resolution, Section 205).

Subordinated Indebtedness

The District may, at any time, or from time to time, issue evidences of indebtedness payable out of Revenues and which may be secured by a pledge of Revenues; provided, however, that such pledge shall be and shall be expressed to be, subordinate in all respects to the pledge of the Revenues, moneys, securities and funds created by the Resolution.

(Resolution, Section 509).

Allocation of Electric System Revenues

The Resolution establishes the following Funds and Accounts for the application of Revenues:

<u>Fund</u>	<u>Held By</u>
Revenue Fund	District
Debt Service	Trustee
Debt Service Account	Trustee
Debt Reserve Account	Trustee

Pursuant to the Resolution, revenues and income derived by the District from the ownership and operation of the Electric System are deposited in the Revenue Fund. The District shall (i) out of the moneys in the Revenue Fund, pay, free and clear of any lien or pledge created by the Resolution, all amounts required for reasonable and necessary Operating Expenses, and (ii) at all times retain in the Revenue Fund amounts deemed by the District to be reasonable and necessary for working capital and reserves for Operating Expenses including expenses which do not recur annually; provided that the total amount of such reserves set aside during any year shall not exceed 20% of the amount of Operating Expenses for such year.

Amounts in the Revenue Fund not retained for Operating Expenses, working capital, and reserves for Operating Expenses are to be paid monthly to the following Funds and Accounts in the order of priority as follows:

(1) To the Debt Service Fund: (i) for credit to the Debt Service Account, to the extent required so that the balance in said Account shall equal the Accrued Aggregate Debt Service; provided that, for the purposes of computing the amount to be allocated to said Account, there shall be excluded the amount, if any, set aside in said Account which was deposited therein from the proceeds of Revenue Bonds less an amount equal to the interest accrued and unpaid and to accrue on Revenue Bonds (or any Refunding Bonds issued to refund Bonds) to the last day of the then current calendar month; and (ii) for credit to the Debt Reserve Account, an amount equal to one-twelfth of twenty percent ($\frac{1}{12}$ of 20%) of the amount necessary to make the total moneys on deposit in the Debt Reserve Account equal to the Debt Reserve Requirement; provided, however, that no deposits need be made into the Debt Reserve Account when the amount on deposit therein shall equal or exceed \$99,277,000.

(2) The District shall out of the moneys in the Revenue Fund not retained therein for Operating Expenses and not applied for credit of the Debt Service Account or the Debt Reserve Account, on or before the first working day of each month, transfer such remaining balance in the Revenue Fund to the General Fund of the District. Any amount so transferred to the General Fund of the District may be used by the District for any lawful purpose.

So long as there shall be held in the Debt Service Fund an amount sufficient to fully pay all outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made into the Debt Service Fund.

The Trustee shall pay from the Debt Service Account the amounts required (i) for the payment of interest and Principal Installments on the Revenue Bonds when due, (ii) on or before the day preceding any redemption date of the Revenue Bonds, for payment of the redemption price and accrued interest on the redemption of Revenue Bonds, and the purchase price on the purchase of Revenue Bonds, through application of moneys accumulated in the Debt Service Account with respect to any sinking fund installment, and through application of any moneys in the Debt Service Account when applied from 40 to 60 days prior to the due date of a sinking fund installment to the retirement of the balance of such installment, and (iii) accrued interest included in the purchase price of Revenue Bonds purchased for retirement.

If on the first working day of any month the amount in the Debt Service Account shall be less than the amount required to be in such Account, the Trustee shall apply amounts from the Debt Reserve Account to the extent necessary to make good the deficiency.

Whenever moneys on deposit in the Debt Reserve Account shall exceed the Debt Reserve Requirement, the excess shall be applied by the Trustee in the same manner as Revenues.

Whenever the amount in the Debt Reserve Account, together with the amount in the Debt Service Account, is sufficient to pay in full all outstanding Revenue Bonds in accordance with their terms, including principal or applicable sinking fund Redemption Price and interest thereon, the funds on deposit in the Debt Reserve Account shall be transferred to the Debt Service Account.

(Resolution, Sections 501-508).

Transfer from General Fund

In the event there is a deficiency in the Debt Service Account and if such a deficiency is not paid from other sources, the District shall transfer money in the General Fund to the Debt Service Account in amounts sufficient to make up such deficiency or deficiencies.

(Resolution, Section 717).

Construction Fund

The Resolution establishes a Construction Fund, to be held by the District, and provides that there shall be paid into the Construction Fund: (i) the balance of Revenue Bond proceeds, remaining after the deposit of an amount equal to the accrued interest on such bonds to the date of delivery of the Revenue Bonds of each Series in the Debt Service Account, and any other deposits required by the Series Resolution to be made in the Debt Service Account and Debt Reserve Account; (ii) insurance proceeds, if any, from physical loss of or damage to a Project, or of contractors' performance bond proceeds, unless otherwise permitted to be applied by the provisions of the Resolution.

In addition, there may be paid into the Construction Fund, at the option of the District, any moneys received for or in connection with the Electric System by the District from any other source, unless required to be otherwise applied as provided by the Resolution.

Amounts in the Construction Fund shall be applied to the purpose or purposes specified in the Series Resolution authorizing the Revenue Bonds, unless otherwise provided for in the Resolution.

To the extent that other moneys are not available therefore, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Revenue Bonds when due.

Amounts in the Construction Fund shall be invested by the District to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay the Cost of Construction or such other purpose to which such moneys are applicable. The District may, and to the extent required for payments from the Construction Fund shall, sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Construction Fund. Interest received on moneys or securities in the Construction Fund shall be deposited in the Construction Fund.

(Resolution, Section 503).

Redemption Fund

The Resolution establishes a Redemption Fund and requires that proceeds from the sale or exchange by the District of any property constituting part of the Electric System and not necessary, in the opinion of the District, in the operation thereof, shall be deposited in either the Construction Fund or the Redemption Fund, at the discretion of the District. In addition, the proceeds of any insurance against damage or destruction, other than against business interruption loss, not applied by the District to constructing or replacing damaged or destroyed property or in acquiring property or assets of the Electric System shall be paid to the Trustee for deposit in the Redemption Fund. Amounts in the Redemption Fund shall be used by the District for the purchase or redemption of any Revenue Bonds and expenses in connection with the purchase or redemption of any Revenue Bonds.

(Resolution, Sections 510, 707 and 713).

Electric System Rate Covenant

The District covenants that it shall charge and collect fees and other charges for the sale of electric power and energy and other services, facilities and commodities of the Electric System as shall be required to provide revenues and income (including investment income) at least sufficient in each fiscal year for the payment of the sum of:

- (a) Operating Expenses during such fiscal year, including reserves, if any, therefore provided for in the Annual Budget for such year;
- (b) An amount equal to the Aggregate Debt Service for such fiscal year;
- (c) The amount, if any, to be paid during such fiscal year into the Debt Reserve Account in the Debt Service Fund;
- (d) An amount equal to the U.S. Government Loan debt service for such fiscal year; and
- (e) All other charges or liens whatsoever payable out of revenues and income during such fiscal year and, to the extent not otherwise provided for, all amounts payable on Subordinated Indebtedness.

The collection of revenues and income (including investment income) in any fiscal year in an amount in excess of the aggregate payments specified for such fiscal year shall not be taken into account as a credit against such aggregate payments for any subsequent fiscal year or years.

On or before April 1 in each year, the District shall complete a review of its financial condition for the purpose of estimating whether the revenues and income from the operation of the Electric System, including investment income treated as revenues for such year, will be sufficient to provide all of the payments and meet all other requirements as specified and shall by

resolution make a determination with respect thereto. If the District determines that such revenues and income may not be sufficient to provide such payments and meet such other requirements, it shall forthwith make a study for the purpose of making a schedule of rates, fees and charges for the Electric System which will cause sufficient revenues and income to be collected in the following fiscal year to provide funds for all the payments and other requirements as specified above for such following year and will cause additional revenues and income to be collected in such following and later fiscal years sufficient to restore the amount of such deficiency at the earliest practicable time. If, in any fiscal year, the revenues and income collected shall not have been sufficient to provide all of the payments and meet all other requirements as specified above, the District shall as promptly as permitted by law establish and place in effect a schedule of rates, fees and charges which will cause sufficient revenues and income to be collected.

The failure in any fiscal year to comply with the Electric System Rate Covenant shall not constitute an Event of Default under the Resolution, if the District shall comply with the requirements of the immediately preceding paragraph.

(Resolution, Section 711).

Certain Other Covenants

No Free Service: The District will not furnish or supply power or energy free of charge to any person, firm or corporation, public or private, and will promptly enforce payment of any and all accounts owing to the District by reason of the ownership and operation of the Electric System, to the extent dictated by sound business practice.

(Resolution, Section 711-3).

Power to Operate Electric System and Collect Rates and Fees: The District has, and will have so long as any Revenue Bonds are outstanding, good right and lawful power to construct, reconstruct, improve, maintain, operate and repair the Electric System, and to fix and collect rates, fees, rents and other charges in connection therewith.

(Resolution, Section 706).

Creation of Liens: Disposition of Properties: The District will not issue bonds or other evidences of indebtedness other than the Revenue Bonds payable out of or secured by a pledge of any Revenues or income of the Electric System or of the moneys, securities or funds held or set aside under the Resolution, nor will it create or cause to be created, any lien or charge thereon except with respect to (i) Subordinated Indebtedness; (ii) loans made or assumed with the United States of America, which loans may be secured by a lien on Revenues and income of the Electric System prior to the lien of Revenue Bonds issued pursuant to the Resolution.

No part of the Electric System shall be sold, mortgaged, leased or otherwise disposed of or encumbered, except: (i) for sales and exchanges of any property constituting part of the Electric System which, in the opinion of the District is not necessary in the operation of the Electric System; (ii) the District may lease or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the Electric System if such lease, contract, license, easement or right does not materially impede or unduly restrict the operation by the District of the Electric System. Any proceeds received by the District for sale or exchange of unnecessary property shall be deposited in either the Construction Fund or the Redemption Fund at the discretion of the District. Any payment received by the District under or in connection with any such lease, contract, license, easement or right of way in respect of the Electric System or any part thereof shall constitute Revenues.

(Resolution, Section 707).

Consulting Engineers: The District shall, until the Revenue Bonds and the interest thereon shall have been paid or provision for such payment shall have been made, for the purpose of performing and carrying out the duties imposed on the Consulting Engineers by the Resolution, employ an independent engineer or engineering firm or corporation having a favorable reputation for skill and experience in such work.

(Resolution, Section 708).

Annual Budget: Not less than 30 days prior to the beginning of each fiscal year, the District shall prepare an Annual Budget for the ensuing fiscal year. Each such Annual Budget shall include estimates for Operating Expenses for such year. Such Annual Budget may set forth such additional material as the District may determine. The District may at any time adopt an amended Annual Budget for the remainder of the then current fiscal year.

(Resolution, Section 709).

Insurance: The District shall provide protection for the Electric System in accordance with sound electric utility practice which may consist of insurance, self-insurance and indemnities. Any insurance shall be in the form of policies or contracts for insurance with insurers of good standing, shall be payable to the District as its interests may appear, and may provide for such deductibles, exclusions, limitations, restrictions and restrictive endorsements customary in policies for similar coverage issued to entities operating properties similar to the properties of the Electric System. Any self-insurance shall be in the amounts, manner and of the types provided by entities operating properties similar to the properties of the Electric System.

(Resolution, Section 712).

Accounts and Reports: The District shall keep, in accordance with Accounting Practice, proper books of record and account of its transactions relating to the Electric Systems, together with all contracts for the sale of power and energy and all other books and papers of the District, including insurance policies, relating to the Electric System and such funds and accounts.

The Trustee shall advise the District promptly after the end of each month of its transactions during such month relating to the funds and accounts held by it under the Resolution.

The District shall annually, within 180 days after the close of each fiscal year, file with the Trustee, and otherwise as provided by law, a copy of the annual report of the District for such year, accompanied by an Accountant's Report. In addition, the District will file with the Trustee a statement, or statements, accompanied by an Accountant's Report of each fund and account established under the Resolution, summarizing the receipts therein and disbursements therefrom during such year and the amounts held therein at the end of each year. Such Accountant's Report on the statement summarizing the transactions in the funds established under the Resolution shall state whether or not, to the knowledge of the signer, the District is in default with respect to any of the covenants, agreements or conditions as set forth in Section 801 of the Resolution, insofar as they pertain to accounting matters and, if so, the nature of such default.

The reports, statements and other documents required to be furnished to the Trustee pursuant to Section 714 of the Resolution shall be available for the inspection of the Revenue Bondholders at the office of the Trustee and shall be mailed to each Revenue Bondholder who shall file a written request therefore with the District.

(Resolution, Section 714).

Defeasance

Outstanding Revenue Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid and shall cease to be entitled to any lien, benefit or security under the Resolution if the following conditions are met: (i) in case of Revenue Bonds to be redeemed, the

District shall have given to the Trustee irrevocable instructions to publish the notice of redemption therefore, (ii) there shall have been deposited with the Trustee in trust either moneys in an amount which shall be sufficient, or investment securities (which shall consist of non-callable securities which are direct obligations of, or obligations guaranteed by, the United States of America) the principal of and interest on which, when due, will provide moneys which, together with any moneys also deposited, shall be sufficient to pay when due the principal or redemption price, if applicable, and interest due or to become due on such Revenue Bonds, and (iii) in the event such Revenue Bonds are not subject to redemption within the next succeeding 60 days, the District shall have given the Trustee irrevocable instructions to publish, as soon as practicable, a notice to the holders of such Revenue Bonds that the above deposit has been made with the Trustee and that such Revenue Bonds are deemed to be paid and stating the maturity or redemption date upon which moneys are to be available to pay the principal or redemption price, if applicable, of such Revenue Bonds.

(Resolution, Section 1201).

Events of Default and Remedies

Events of Default specified in the Resolution include failure to pay principal or redemption price of any Revenue Bond when due; failure for 30 days to pay any interest installment or the unsatisfied balance of any Sinking Fund Installment thereon when due; failure to comply with the rate and fee covenants with respect to the Electric System, if such failure is not remedied by compliance with subsection 2 of Section 711 of the Resolution; failure for 60 days after written notice thereof to the District by the Trustee or the District and the Trustee by the holders of not less than 10% of the principal amount of the Revenue Bonds outstanding in the observance or performance of any other covenants, agreements or conditions; and the filing of a petition seeking a composition of indebtedness under the Federal Bankruptcy Laws, or a Federal or Arizona statute. Upon the happening of any such Event of Default, the Trustee or the holders of not less than 25% in principal amount of the Revenue Bonds then outstanding may declare the principal and accrued interest on all Revenue Bonds then outstanding due and payable. Such declaration may be rescinded by written notice to the District and to the Trustee of the holders of a majority of the principal amount of the Revenue Bonds outstanding at any time after such declaration but prior to the maturity of the Revenue Bonds by their terms, if: (i) all overdue installments of interest upon the Revenue Bonds, interest upon such overdue installments permitted by law, the reasonable and proper charges, expenses and liabilities of the Trustee and all other sums then due under the Resolution (except the principal of and interest accrued upon the Revenue Bonds due solely by virtue of such declaration) shall either be paid by or for the account of the District or provision for such payment satisfactory to the Trustee shall be made; (ii) all defaults under the Revenue Bonds or Resolution shall be cured, made good or secured (or provision for such cure, making good or securing be made) to the satisfaction of the Trustee.

If the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the holders of a majority in principal amount of the Revenue Bonds then outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled; but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Upon occurrence of an Event of Default, the District shall subject the books of record and account of the District, and all other records relating to the Electric System, to the use of the Trustee and its agents and attorneys.

Upon occurrence of an Event of Default, which shall not have been remedied, the District shall, if demanded by the Trustee, account as a trustee of an express trust, for all Revenues,

moneys, securities and funds pledged under the Resolution, and pay over to the Trustee all assets held in any fund or account under the Resolution and, as received, all Revenues. The Trustee shall apply such moneys, securities, funds and Revenue and income therefrom in the following order: (i) to the payment of the amounts required for reasonable and necessary Operating Expenses, and for reasonable renewals, repairs and replacements of the Electric System to prevent loss of Revenues, (ii) to the payment of reasonable and proper charges, expenses and liabilities of the Trustee and its engineers; (iii) to the payment of interest and principal or Redemption Price then due on the Revenue Bonds, subject to the provisions of subsection 2 of Section 803 of the Resolution.

If all defaults under the Revenue Bonds or the Resolution shall be cured, made good or secured to the satisfaction of the Trustee, the District and the Trustee shall be restored to their former position and rights, and all revenues shall be applied as if there had been no Event of Default.

If an Event of Default shall have occurred and not be remedied, the Trustee may, or on request of the holders of not less than 25% in principal amount of Revenue Bonds outstanding shall, take such steps by a suit or suits in equity or at law, whether for the specific performance of any covenants of the Resolution or in aid of the execution of any power granted in the Resolution, or for an accounting against the District, or in the enforcement of any other legal or equitable right as the Trustee shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

The holders of not less than a majority in principal amount of Revenue Bonds then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee (subject to the Trustee's right to decline to follow such direction upon advice of counsel as to the unlawfulness thereof or upon its good faith determination that such action would involve the Trustee in personal liability or would be unjustly prejudicial to bondholders not parties to such direction).

The Trustee may, upon the request of the holders of a majority in principal amount of the Revenue Bonds then outstanding, and upon being furnished with reasonable security and indemnity, but shall be under no obligation to institute and prosecute a proper action to prevent any impairment of the security under the Resolution or to preserve or protect the interests of the Trustee and of the bondholders.

In case an Event of Default shall occur (which shall not have been cured), the Trustee shall be required to exercise and use the same degree of care and skill as a prudent man would exercise and use under the circumstances in the conduct of his own affairs.

No holder of any Revenue Bond or coupon shall have any right to institute any suit, action or proceeding for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such holder shall have previously given the Trustee written notice of the Event of Default, and the holders of at least 25% in principal amount of the Revenue Bonds then outstanding shall have filed a written request with the Trustee and shall have afforded the Trustee a reasonable opportunity to exercise its powers or institute such action, suit or proceeding, and unless there shall have been offered to the Trustee adequate security and indemnity against its costs, expenses and liability to be incurred and the Trustee shall have refused to comply with such request within 60 days. Nothing in the Resolution or the Revenue Bonds affects or impairs the District's obligation to pay the Revenue Bonds and interest thereon when due or the right of any bondholder to enforce such payment.

(Resolution, Sections 801-808, 903).

Amended and Restated Resolutions

For any of the following purposes, a Amended and Restated Resolution of the District may be adopted, which, upon the filing with the Trustee, shall be fully effective: (1) To provide additional limitations and restrictions on the delivery of Revenue Bonds or the issuance of other evidences of indebtedness; (2) To add other covenants and agreements to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect; (3) To add other limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Resolution as heretofore in effect; (4) To authorize Revenue Bonds of a Series and any other matters and things relative to such Revenue Bonds which are not contrary to or inconsistent with the Resolution or to amend, modify or rescind any such authorization, prior to the first delivery of such Revenue Bonds; (5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge of the Revenues or of any other moneys, securities or funds; (6) To modify any of the provisions of the Resolution in any respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Revenue Bonds of any Series outstanding at the date of the adoption of such Amended and Restated Resolution shall cease to be outstanding, and (ii) such Amended and Restated Resolution shall be specifically referred to in the text of all Revenue Bonds of any Series delivered after the date of the adoption of such Amended and Restated Resolution and of Revenue Bonds issued in exchange therefore or in place thereof; (7) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; or (8) To insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect.

(Resolution, Section 1001).

Amendment with Consent of Bondholders

Any modification or amendment of the Resolution may be made in any particular by a Amended and Restated Resolution, with the written consent (i) of the holders of at least two-thirds in principal amount of the Revenue Bonds outstanding at the time such consent is given and (ii) in case less than all of the several Series of Revenue Bonds then outstanding or less than all the Revenue Bonds of a Series then outstanding are affected by the modification or amendment of the holders of at least two-thirds in principal amount of the Revenue Bonds so affected and outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the holders of at least two-thirds in principal amount of the Revenue Bonds entitled to such Sinking Fund Installment and outstanding at the time such consent is given. If such modification or amendment will, by its terms, not take effect so long as any Revenue Bonds of any specified like Series and maturity remain outstanding, the consent of the holders of such Revenue Bonds shall not be required.

No such modification or amendment shall (i) permit a change in the terms of redemption or maturity of the principal of any outstanding Revenue Bond or of any installment of interest thereon, or permit a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon, without, in each case, the consent of the holder of such Revenue Bond; or (ii) reduce the percentages or otherwise affect the classes of Revenue Bonds the consent of the Holders of which is required to effect any such modification or amendment; or (iii) change or modify any of the rights or obligations of the Trustee or any Paying Agent without its written assent thereto.

(Resolution, Sections 1102 and 1103).

Special Provisions Relating to Capital Appreciation Bonds

For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity, or (ii) receiving payment of a Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default or (iii) computing the principal amount of Bonds held by the registered owner of a Capital Appreciation Bond in giving to the District or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

The principal and interest portions of the Accreted Value (as defined in an applicable Series Resolution) of Capital Appreciation Bonds (as defined in an applicable Series Resolution) becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest of Principal Installments made under the definitions of Debt Service, Aggregate Debt Service and Accrued Aggregate Debt Service only from and after the date (the "Calculation Date") which is one year prior to the date on which Accreted Value becomes so due, and the principal and interest portions of such Accreted Value shall be deemed to accrue in equal daily installments from the Calculation Date to such due date.

(Resolution, Section 101).

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APPENDIX C — Form of Amended and Restated Bond Resolution

Deletions appear as Overstrike text surrounded by { }

Additions appear as Bold text surrounded by []

**SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT
AND POWER DISTRICT, ARIZONA**

**[Supplemental Resolution Dated September 10, 2001
Authorizing an Amended and Restated] Resolution Concerning Revenue Bonds**

{A}

**[SUPPLEMENTAL RESOLUTION DATED SEPTEMBER 10, 2001
AUTHORIZING AN AMENDED AND RESTATED] RESOLUTION
RELATING TO THE EXERCISE OF POWERS GRANTED BY
ARIZONA REVISED STATUTES, ARTICLE 7, CHAPTER 17,
TITLE 48; CREATING AND ESTABLISHING AN ISSUE OF SALT
RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS OF
SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND
POWER DISTRICT; PROVIDING FOR THE ISSUANCE FROM
TIME TO TIME OF SAID BONDS; PROVIDING FOR THE
PAYMENT OF PRINCIPAL AND INTEREST ON SAID BONDS
AND PROVIDING FOR THE RIGHTS OF THE HOLDERS
THEREOF.**

WHEREAS, Salt River Valley Water Users' Association (hereinafter called the "Association") was duly incorporated February 9, 1903, under the General Corporation Laws of the Territory of Arizona to furnish water for irrigation, power for domestic and ordinary purposes, and to provide drainage to and for the lands appurtenant to the shares held by the members of said Association, and was authorized to construct and operate, or to contract with the United States of America for the construction and operation of dams, power plants, transmission lines, roads, canals, and other facilities incident to the storage, production, distribution and operation of irrigation, water, power and drainage works for the benefit of said lands, the area including all said lands served and benefited by such works and improvements being known as the Salt River Project; and

WHEREAS, said Association by contract entered into with the United States of America agreed to act as Agent for the United States of America to collect from the owners of said lands in the Salt River Project moneys due the United States of America for the construction and operation of the works constructed and operated in connection with said Salt River Project and further agreed as Agent for the United States of America to maintain, operate, complete, improve and extend such works, and said Association, in furtherance of the objects for which it was incorporated, expended and undertook the payment of certain amounts of money for the construction, by it and by the United States of America, of dams, power plants, canals, ditches, pumping plants, pipe lines and other properties and improvements, and for said purposes issued its bonds and assumed the payment of bonds issued by certain underlying agricultural improvement districts therefor and thereafter incurred further indebtedness for the improvements and replacements of the structures and equipment necessary and useful for providing power for the use of the owners and occupants of said lands within the exclusion lines of the Salt River Project; and

WHEREAS, all of the lands subscribed to the Articles of Incorporation of said Salt River Valley Water Users' Association and within the exclusion lines of the Salt River Project were organized on January 25, 1937 under the laws of the State of Arizona as an agricultural improvement district and as a political subdivision and body politic and corporate known and designated as Salt River Project Agricultural Improvement and Power District (hereinafter called the "District"); and

WHEREAS, said District, pursuant to authority of law, entered into that certain Agreement with said Association dated March 22, 1937, whereby said Association agreed to perform and comply with all of its contracts with the United States of America and to act as Agent of the United States of America in operating the Salt River Project for the benefit of this District; and

WHEREAS, by virtue of an amendment dated September 12, 1949, to that certain Agreement with said Association dated March 22, 1937, said District assumed the direct operation of the electric system of the Salt River Project, including all works on Salt River and its tributaries above Granite Reef Dam, and all property used or useful in the generation, transmission, and

distribution of electrical power and energy, and all facilities used or useful solely in the operation and maintenance of said works and property, and the Association under said amendment assumed as Agent of said District the direct operation and maintenance of the irrigation and drainage system of the Salt River Project, including all canals and laterals used in delivery of water, all works for the diversion of water into said canals and laterals, all irrigation and drainage wells and pumping plants, and all other facilities used or useful exclusively in the operation and maintenance of said works and property, all to promote and assure further economy and efficiency in the operation and maintenance of said electric system of the Salt River Project, and to insure adequate and proper service of water to the users thereof within Salt River Project; and

WHEREAS, under Chapter 17, Title 48, Arizona Revised Statutes said District has the general power and authority to finance improvements and replacements of structures and equipment necessary and useful for providing power for the use of owners and occupants of the lands within the Salt River Project and to reduce the cost of irrigation, drainage and power to the owners of lands within the Salt River Project by the sale of surplus water or power, and to issue its bonds to accomplish such financing when deemed proper for the interest of said District and to pledge its revenues as security for the payment of said bonds; and

WHEREAS, it is determined necessary and in the best interests of the District to adopt a resolution relating to the exercise of powers granted by Article 7, Chapter 17, Title 48 of Arizona Revised Statutes, and to issue bonds at such times and in such amounts as the Board of Directors shall determine; and

[WHEREAS, the District adopted its resolution entitled "RESOLUTION RELATING TO THE EXERCISE OF POWERS GRANTED BY ARIZONA REVISED STATUTES, ARTICLE 7, CHAPTER 17, TITLE 48; CREATING AND ESTABLISHING AN ISSUE OF SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS OF SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT; PROVIDING FOR THE ISSUANCE FROM TIME TO TIME OF SAID BONDS; PROVIDING FOR THE PAYMENT OF PRINCIPAL AND INTEREST ON SAID BONDS AND PROVIDING FOR THE RIGHTS OF THE HOLDERS THEREOF" dated as of November 1, 1972, as amended through October 14, 1993 (the "Bond Resolution"); and

WHEREAS, the District desires to amend and restate the Bond Resolution in order to modernize the Bond Resolution so that it can efficiently operate in a changing electric utility industry and to provide the District with greater flexibility in the exercise of its powers thereunder; and

WHEREAS, pursuant to Section 11.02 of the Bond Resolution the District has the power and authority to amend the Bond Resolution by adoption of a supplemental resolution in accordance with the provisions of Section 11.03 of the Bond Resolution; and

WHEREAS, it is determined necessary and in the best interests of the District to adopt a supplemental resolution amending and restating the Bond Resolution in accordance with the provisions hereof; and

WHEREAS, this supplemental resolution shall become effective only upon satisfaction of the provisions for adoption of a supplemental resolution as set forth in Section 11.03 hereof;]

NOW, THEREFORE, BE IT AND IT IS HEREBY RESOLVED by the Board of Directors of Salt River Project Agricultural Improvement and Power District [that the **Bond Resolution** is hereby amended and restated] as follows:

ARTICLE I

DEFINITIONS AND STATUTORY AUTHORITY

1.01 Definitions. The following terms shall, for all purposes of the Resolution, have the following meanings:

Accountant's Report shall mean an opinion signed by an independent public accountant of recognized national standing or a firm of public accountants of recognized national standing, selected by the District, who may be the accountant or firm of accountants who regularly examine the financial statements of the District and the Association.

Accounting Practice shall mean generally accepted accounting principles appropriate to the electric utility industry.

~~{Accrued Aggregate Debt Service shall mean, as of any date of calculation, an amount equal to the sum of the amounts of accrued Debt Service with respect to all Series, calculating the accrued Debt Service with respect to each Series at an amount equal to the sum of (i) interest on the Bonds of such Series accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installments for such Series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month.}~~

Act shall mean Chapter 17, Title 48, Arizona Revised Statutes, as amended and supplemented from time to time.

Aggregate Debt Service for any Fiscal Year shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such year with respect to all Series.

Annual Budget shall mean the annual budget [of the District], as amended or supplemented, adopted or in effect for a particular Fiscal Year ~~{as provided in Section 7.09}~~.

Authorized Newspapers shall mean two newspapers printed in the English language, one of which is customarily published at least once a day for at least five days (other than legal holidays) in each calendar week and of general circulation in the City of Phoenix, Arizona, and the other of which is The Daily Bond Buyer, a newspaper specializing in financial matters published in the Borough of Manhattan, City and State of New York or in lieu of such publication in The Daily Bond Buyer, in some other newspaper of general circulation specializing in financial matters published in the Borough of Manhattan, City and State of New York.

Authorized Officer of the District shall mean the President, Vice President, Treasurer, Secretary or General Manager of the District or any officer or employee of the District authorized to perform specific acts or duties by resolution duly adopted by the District.

Bond or Bonds shall mean any bond or bonds delivered under and pursuant to the Resolution.

Bondholder or Holder of Bonds shall mean any person who shall be ~~{the bearer of any coupon Bond or Bonds or}~~ the registered owner of any Bond ~~{or Bonds without coupons or the registered owner of any coupon Bond or Bonds registered as to principal only}~~.

Construction Fund shall mean the Salt River Project Electric System Construction Fund established in Section 5.02.

~~{Consulting Engineers shall mean the engineer or engineering firm or corporation at the time retained by the District pursuant to Section 7.08 to perform the acts and carry out the duties provided for such Consulting Engineers in the Resolution.}~~

Cost of Construction shall mean the District's cost of physical construction, costs of acquisition by or for the District of a Project for the Electric System, and costs of the District incidental to such construction or acquisition, the cost of any indemnity and surety bonds and premiums on insurance during construction, engineering expenses, legal fees and expenses, costs of financing, audits, fees and expenses of the Fiduciaries, amounts, if any, required by the Resolution or any Series Resolution to be paid into the Debt Service Fund upon the issuance of any Series of Bonds, payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the District (other than the Bonds) incurred for a Project for the Electric System, costs of machinery, equipment and supplies and initial working capital and reserves required by the District for the commencement of operation of a Project for the Electric System, and any other costs properly attributable to such construction or acquisition, as determined by Accounting Practice, and shall include reimbursement to the District for any such items of Cost of Construction theretofore paid by the District. Any Series Resolution may provide for additional items to be included in the aforesaid Cost of Construction.

Counsel's Opinion shall mean an opinion signed by an attorney or firm of attorneys (who may be counsel to the District) selected by the District.

[Debt Reserve Account Credit Facility shall mean a letter of credit, revolving credit agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution, having a rating in the highest rating category from a nationally recognized rating agency, which shall be deposited in the Debt Reserve Account and which provides for the payment of all or a portion of the Debt Reserve Requirement.]

Debt Reserve Requirement shall mean, as of any date of calculation, an amount equal to one-half of the average annual ~~{Debt Service on}~~ **[interest cost for]** all Outstanding Bonds, ~~{but not to exceed \$99,277,000,}~~ **[which may be satisfied by the deposit of cash or securities in the Debt Reserve Account or by the deposit of a Debt Reserve Account Credit Facility in the Debt Reserve Account in lieu of or in partial substitution for cash or securities on deposit therein. For purposes of determining the average annual interest cost for any Outstanding Bonds which bear interest at a variable rate, the District shall assume the same average interest cost applicable to such Outstanding Bonds for the previous Fiscal Year.]**

Debt Service for any period shall mean, as of any date of calculation and with respect to any Series an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits in the Debt Service Account in the Debt Service Fund made from Bond proceeds, and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, if there shall be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment). Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Debt Service Fund shall mean the Salt River Project Electric System Debt Service Fund established in Section 5.02[, **including the Debt Service Account and Debt Reserve Account created therein.**

Defeasance Securities shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of District funds:

(i) Any security which is (a) a direct obligation of or unconditionally guaranteed by, the United States of America or the State of Arizona or (b) an obligation of an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which is not callable or redeemable at the option of the issuer thereof;

(ii) Any depositary receipt issued by a bank as custodian with respect to any Defeasance Securities which are specified in clause (i) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal or interest on any such Defeasance Securities which are so specified and held, by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any such Defeasance Securities which are so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the Defeasance Securities or the specific payment of principal or interest evidenced by such depositary receipt;

(iii) Certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances whose maturity value shall not be greater than $\frac{1}{25}$ of the capital and surplus of the accepting bank or commercial paper issued by the parent holding company of any such bank which at the time of investment has an outstanding unsecured, uninsured and unguaranteed debt issue rated in the highest short term rating category by a nationally recognized rating agency;

(iv) Any obligation of any state or political subdivision of a state or of any agency or instrumentality of any state or political subdivision ("Municipal Bond") which Municipal Bond is fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holder of the Municipal Bond, and which Municipal Bond is rated in the highest rating category by at least two nationally recognized rating agencies, and provided, however, that such Municipal Bond is accompanied by (1) a Counsel's Opinion to the effect that such Municipal Bond will be required for the purposes of the investment being made therein and (2) a report of a nationally recognized independent certified account verifying that the moneys and obligations so segregated are sufficient to pay the principal of, premium, if any, and interest on the Municipal Bond; and

(v) Any other security designated in a Series Resolution as Defeasance Securities for purposes of defeasing the Bonds authorized by such Series Resolution].

Depository shall mean any bank or trust company selected by the District as a depository of moneys and securities held under the provisions of the Resolution, and may include the Trustee.

District shall mean the Salt River Project Agricultural Improvement and Power District, a body politic and corporate organized and existing under the laws of the State of Arizona, including the Act.

Electric System shall mean properties and assets to which legal title is vested in the District and was so vested on the date of adoption of this Resolution and all properties and assets acquired by the District as renewals and replacements, additions and expansion, and improvements thereto, as recorded in the books of the District pursuant to Accounting Practices, but shall not include properties and assets that may be hereafter purchased, constructed or otherwise acquired by the District as a separate system or facility, the revenue of which may be

pledged to the payment of bonds or other forms of indebtedness issued to purchase, construct or otherwise acquire such separate system or facility and shall not include properties or assets charged to Irrigation Plant [**or any Separately Financed Project**].

Event of Default shall have the meaning given to such term in Section 8.01.

Fiduciary or Fiduciaries shall mean the Trustee, the Paying Agents, or any or all of them, as may be appropriate.

Fiscal Year shall mean the period commencing ~~{January 1 and ending December 31 of each calendar year, for calendar years commencing on or before January 1, 1979, and the period commencing}~~ May 1 and ending April 30 for each twelve-month period ~~{commencing May 1, 1979, and thereafter}~~ [**or any other consecutive twelve month period designated by the District from time to time**].

General Fund shall mean the Salt River Project Agricultural Improvement and Power District General Fund which has been created and maintained pursuant to the Act.

Investment Securities shall mean ~~{and include}~~ any ~~{of the following}~~ securities ~~{,}~~ if and to the extent the same are at the time legal for investment of District funds. ~~{~~

~~(i) Direct obligations of or obligations guaranteed by, the United States of America or the State of Arizona;~~

~~(ii) Certificates of deposit, and banker's acceptances whose maturity value shall not be greater than 1/25 of the capital and surplus of the accepting bank;~~

~~(iii) Bonds, debentures or notes issued by any of the following Federal Agencies: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Bank System; Export-Import Bank of Washington; Federal Land Banks; the Federal National Mortgage Association (including Participation Certificates issued by such Association); or the Government National Mortgage Association; the United States Postal Service; the Tennessee Valley Authority; or any Agency or instrumentality of the United States of America which shall be established for the purpose of acquiring the obligations of any of the foregoing or otherwise providing financing therefor;~~

~~(iv) Public Housing Bonds issued by public agencies and municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract or Contracts with the United States of America; or Project Notes issued by public agencies or municipalities, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; and~~

~~(v) Direct and general obligations of any State within the territorial United States, to the payment of the principal of an interest on which the full faith and credit of such State is pledged, provided that at the time of their purchase under the Resolution, such obligations are rated in any of the three highest rating categories by a nationally recognized bond rating agency.~~

Irrigation Plant shall mean all land and land rights, structures, facilities and equipment used or usable by the District or the Salt River Valley Water Users' Association solely for the development, storage, transportation, distribution and delivery of water to the owners or occupants of the lands within the Salt River Project having rights thereto or to anyone acting on behalf thereof pursuant to contracts with the Salt River Valley Water Users' Association or the District.

~~{Maximum Annual Debt Service shall mean, as of any date of calculation and with respect to any Series, an amount equal to the greatest amount of Debt Service with respect to such Series for the current or any future Fiscal Year.}~~

Operating Expenses shall mean the District's expenses of operating the Electric System, including[, without limiting the generality of the foregoing,] all costs of purchased power, operation, maintenance, generation, production, transmission, distribution, repairs, replacements, engineering ~~{, transportation}~~ [and transportation required for the operation of the Electric System (including any payments made pursuant to a "take-or-pay" electric supply or energy contract that obligates the District to pay for fuel, energy or power, so long as fuel or energy is delivered or made available for delivery)], administrative and general, audit, legal, financial, pension, retirement, health, hospitalization, insurance, taxes~~{,}~~ and any other expenses actually paid or accrued, without limitation, expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice and any other expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice, and any other expenses incurred or payments by the District under the provisions of the Resolution or in discharge of obligations required to be paid by local, state or federal laws, all to the extent properly allocable to the Electric System under Accounting Practice[, including those expenses the payment of which is not immediately required, such as those expenses related to the funding of a reserve in the Operating Fund].

Operating Expenses shall not include any costs or expenses for ~~{new construction,}~~ falling water used in hydroelectric operations of the District, charges for depreciation, voluntary payments in lieu of taxes and operation, maintenance, repairs, replacement and construction of the Irrigation Plant.

Outstanding when used with reference to Bonds, shall mean, as of any date, Bonds theretofore or thereupon being authorized and delivered under the Resolution except:

- (i) Any Bonds cancelled by the Trustee at or prior to such date;
- (ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provisions satisfactory to the Trustee shall have been made for the giving of such notice;
- (iii) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to Article III or Sections 4.06 or 11.06; and
- (iv) Bonds deemed to have been paid as provided in subsection 2 of Section 12.01.

Paying Agent shall mean any bank or trust company designated as paying agent for the Bonds of any Series, and its successor or successors hereafter appointed in the manner provided in the Resolution.

Principal Installment shall mean, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

~~{Prior Lien Bond Resolutions shall mean the bond resolutions of the District authorizing the issuance of: \$7,332,000 Refunding Corporate Bonds, Bond Issue Number One, Series A, B, C &~~

D, adopted July 3, 1944; \$1,929,000 Refunding Corporate Bonds, Bond Issue Number One, Series E, F, G, H & I, all adopted November 3, 1948; \$3,500,000 Corporate Bonds, Bond Issue Number Four, adopted July 26, 1950; \$4,500,000 Corporate Bonds, Bond Issue Number Five, adopted January 30, 1951; \$5,000,000 Corporate Bonds, Bond Issue Number Six (first installment), adopted December 1, 1952; \$5,000,000 Corporate Bonds, Bond Issue Number Six (second installment), adopted December 7, 1953; \$3,500,000 Corporate Bonds, Bond Issue Number Six (third installment), adopted May 4, 1954; \$11,000,000 Corporate Bonds, Bond Issue Number Seven (first installment) adopted April 25, 1956; \$5,000,000 Corporate Bonds, Bond Issue Number Eight, Series B, adopted February 9, 1959; \$15,000,000 Salt River Project Bonds, Bond Issue Number Nine, Series A, adopted November 9, 1959; \$15,000,000 Salt River Project Bonds, Bond Issue Number Nine, Series B, and \$4,000,000 Salt River Project Bonds, Bond Issue Number Nine, Series C, adopted July 6, 1960; \$10,000,000 Salt River Project Bonds, Bond Issue Number Ten, Series A, adopted May 7, 1962; \$6,000,000 Salt River Project Bonds, Bond Issue Number Ten, Series B, and \$8,000,000 Salt River Project Bonds, Bond Issue Number Ten, Series C, adopted August 31, 1965; \$13,470,000 Salt River Project Refunding Bonds, Bond Issue Number Eleven, adopted August 31, 1965; \$32,000,000 Salt River Project Bonds, Bond Issue Number Twelve, Series A adopted January 8, 1968; \$16,000,000 Salt River Project Bonds, Bond Issue Number Twelve, Series B, adopted January 6, 1969; \$10,000,000 Salt River Project Bonds, Bond Issue Number Thirteen, adopted January 6, 1969; \$36,000,000 Salt River Project Bonds; Bond Issue Number Fourteen, Series A, adopted February 10, 1970; \$40,000,000 Salt River Project Bonds, Bond Issue Number Fourteen, Series B; adopted November 2, 1970; \$52,000,000 Salt River Project Bonds; Bond Issue Number Fourteen, Series C, adopted October 4, 1971; \$49,000,000 Salt River Project Bonds, Bond Issue Number Fourteen, Series D, adopted March 6, 1972; together with all supplemental resolutions adopted in accordance with the terms thereof, and certain loan agreements with the United States of America, heretofore, or hereafter made or assumed by the District.

Prior Lien Bonds shall mean outstanding bonds of the District authorized and issued pursuant to the Prior Lien Bond Resolutions; and all outstanding loans with the United States of America, heretofore, or hereafter made or assumed by the District which have a prior lien on revenues of the Electric System.

Prior Lien Debt Service for any period shall mean, as of any date of calculation all payments required by the Prior Lien Bond Resolutions on account of principal and interest for the Prior Lien Bonds, and all such loan repayments made to the United States of America.

Project shall mean the purchase, replacement, construction, leasing or acquisition of any real or personal property or interest therein, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire, or the improvement, reconstruction, extension or addition to any real or personal property, works or facilities owned or operated by the District, or any program of development involving real or personal property, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire or the improvement, reconstruction, extension or addition to such program.

[Put Bonds shall mean Bonds which by their terms may be tendered by and at the option of the owner thereof, or are subject to a mandatory tender, for payment or purchase prior to the stated maturity or redemption date thereof.]

Rate Stabilization Fund shall mean the Salt River Project Electric System Rate Stabilization Fund established in Section 5.02.]

Redemption Price shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Resolution.

Refunding Bonds shall mean all Bonds, whether issued in one or more Series, issued and delivered pursuant to Section 2.05 and thereafter delivered in lieu of or in substitution for such Bonds pursuant to Article III or Sections 4.06 or 11.06.

Resolution shall mean this **[Amended and Restated]** Resolution **[Concerning Revenue Bonds]** as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms hereof.

~~{Retirement Date of the Prior Lien Bonds shall mean the date on which all of the Prior Lien Bonds shall be paid or deemed to be paid in accordance with the provisions of the Prior Lien Bond Resolutions.}~~

Revenue Fund shall mean the Salt River Project Electric System Revenue Fund established in Section 5.02.

Revenues shall mean (i) all ~~{funds transferred by order of the Treasurer of the District from the "Electric Revenue Fund" (established, created and maintained pursuant to the Prior Lien Bond Resolutions) to the General Fund of the District for deposit in the Revenue Fund pursuant to Sections 5.04 and 7.16 hereof and (ii) after the Retirement Date of the Prior Line Bonds all}~~ revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System and ~~{(iii)}~~ **[(ii)]** interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Resolution and paid into the Revenue Fund~~[, but not including any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project and not including any federal or state grant monies the receipt of which is conditioned upon their expenditure for a particular purpose].~~

Revenues Available For Debt Service for any Fiscal Year or period of 12 calendar months shall mean all ~~{revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System, and the proceeds of any insurance covering business interruption loss relating to the Electric System for such year or period, and interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Prior Lien Bond Resolutions and the Resolution,}~~ **[Revenues]** less Operating Expenses for such ~~{year or period.}~~ **[Fiscal Year or period.]**

Separately Financed Project means any project described as such in Section 2.06.]

Series shall mean all of the Bonds issued pursuant to a Series Resolution, and any Bonds thereafter delivered in lieu of or in substitution for such Bonds pursuant to Article III or Sections 4.06 or 11.06, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions. If a Series of Bonds is sold in installments, Series shall mean all the Bonds of such installment.

Series Resolution shall mean a resolution of the District authorizing the issuance of a Series of Bonds adopted by the District in accordance with Article II and any subsequent resolution of the District which provides for the sale of all or part of such Series of Bonds.

Sinking Fund Installment shall mean an amount so designated which is established pursuant to subsection (11) of Section 2.02.

Subordinated Indebtedness shall mean any evidence of debt referred to in, and complying with the provisions of, Section 5.09.

Supplemental Resolution shall mean any resolution supplemental to or amendatory of the Resolution, adopted by the District in accordance with Article X.

Trustee shall mean the trustee appointed pursuant to Article IX, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations ~~{and}~~ [,], corporations **[and governmental entities]**.

~~{The principal and interest portions of the Accreted Value (as defined in an applicable Series Resolution) of Capital Appreciation Bonds (as defined in an applicable Series Resolution) becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest of Principal Installments made under the definitions of Debt Service, Aggregate Debt Service and Accrued Aggregate Debt Service only from and after the date (the "Calculation Date") which is one year prior to the date on which such Accreted Value becomes so due, and the principal and interest portions of such Accreted Value shall be deemed to accrue in equal daily installments from the Calculation Date to such due date.}~~

1.02 Authority for the Resolution. The Resolution is adopted pursuant to the provisions of the Act.

1.03 Resolution to Constitute Contract. In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued hereunder by those who shall hold the same from time to time, the Resolution shall be deemed to be and shall constitute a contract between the District and the Holders from time to time of the Bonds and ~~{coupons and}~~ the pledge made in the Resolution and the covenants and agreements therein set forth to be performed on behalf of the District shall be for the equal benefit, protection and security of the Holders of any and all of the Bonds ~~{and coupons}~~, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds ~~{or coupons}~~ over any other thereof except as expressly provided in or permitted by the Resolution.

ARTICLE II

AUTHORIZATION AND ISSUANCE OF BONDS

2.01 Authorization of Bonds. There is hereby established and created an issue of Bonds of the District to be known and designated as "Salt River Project Electric System Revenue Bonds", which Bonds may be issued as hereinafter provided without limitation as to amount except as provided in the Resolution or as may be hereafter limited by law. The Bonds shall not constitute general obligations of the District, and no Holder or Holders of any of the Bonds shall ever have the right to compel any exercise of the taxing powers of the District to pay the Bonds or the interest thereon, and each Bond issued pursuant to this Resolution shall recite in substance that said Bond, including interest thereon, is payable from the Revenues and other funds pledged to the payment thereof. All Bonds shall be equally and ratably secured without priority by reason of Series designation, number, date of Bonds, date of sale, execution, maturity, or delivery, by a lien on the Revenues and other funds pledged to the payment thereof, all in accordance with the provisions of the Act and this Resolution.

2.02 Provisions for Issuance of Bonds. The issuance of the Bonds may be authorized by a Series Resolution or Series Resolutions of the District adopted subsequent hereto, in one or more Series. The Bonds of each Series may be sold in one or more installments. The Bonds of each Series shall, in addition to the Title "Salt River Project Electric System Revenue Bonds", contain an appropriate Series designation. If a Series of Bonds is sold in one or more installments it shall, in addition to its Series designation, contain a designation distinguishing it from other installments of said Series.

Each Series Resolution authorizing the issuance of a Series of Bonds shall also specify or provide the manner of determining:

- (1) the authorized principal amount of such Series of Bonds;
- (2) the purposes for which the Bonds of such Series are being issued, which shall be only the payment or reimbursement of the Cost of Construction of a Project for the Electric System, or the refunding of obligations previously issued with respect to a Project for the Electric System, which obligations to be refunded shall be specified in such Series Resolution[, or any other lawful purpose];
- (3) the date or dates, maturity date or dates and the interest payment date or dates, or the manner of determining the same;
- (4) the interest rate or rates[, if any,] or the manner of determining such rate or rates;
- (5) the denomination or denominations of the Bonds of such Series, provided that each Bond shall be in the denomination of \$5,000 or an integral multiple thereof, not exceeding the aggregate principal amount of the Bonds of such Series, or in the case of the sale of a Series of Bonds in installments such installment, maturing in the year of maturity of the Bond for which the denomination is to be specified or, in such other denominations as shall be provided in the Series Resolution;
- (6) the premiums, if any, to be paid upon the redemption of the Bonds of such Series, and the terms of such redemption;
- (7) the place or places of payment of the principal of and interest and redemption premium, if any, on the Bonds of such Series;
- (8) provisions for the sale or other disposition of the Bonds of such Series;
- (9) the forms of the Bonds of such Series, and ~~{of the coupons to be attached to the coupon Bonds of such Series;}~~ **[if the Bonds are Put Bonds, provisions regarding the tender for purchase thereof and payment of the purchase price thereof;]**
- (10) the officers of the District directed to execute the Bonds of such Series by either manual or facsimile signature;
- (11) the amount and due date of each Sinking Fund Installment for the Bonds of such Series, if any; and
- (12) any other provisions deemed advisable by the District not in conflict with the provisions of this Resolution.

When a Series of Bonds is sold in installments, each such installment may have details, terms and provisions which differ from other installments of the same Series of Bonds, all as provided by Series Resolution.

[Bonds shall be delivered in accordance with a Series Resolution but only upon receipt by the Trustee of:

- (1) A Counsel's Opinion to the effect that (a) the District has the right and power under the Act to adopt the Series Resolution, and the Series Resolution has been duly and lawfully adopted by the District, is in full force and effect, and is valid and binding upon the Authority, and enforceable in accordance with its terms, and no other authorization for the Series Resolution is required; (b) the Series Resolution creates the valid pledge which it purports to create in the manner and to the extent provided therein; (c) the Bonds are valid, binding, direct and general obligations of the District, enforceable in accordance with their terms and the terms of the Series Resolution and entitled to the benefits of the Act, and such Bonds have been duly and validly authorized

and issued in accordance with law and the Series Resolution; and (d) the District has good right and lawful authority under the Act to effectuate the purposes for which the proceeds of such Bonds will be utilized, subject, in the case of Bonds issued for other than refunding purposes, to obtaining such licenses, orders or other authorizations, if any, as, at the date of such Counsel's Opinion, may be required to be obtained from any agency or regulatory body having lawful jurisdiction in order to effectuate such purposes;

(2) A certified copy of the Series Resolution and certificate of determination of an Authorized Officer of the District, if any, authorizing such Bonds;

(3) A written order of the District as to the delivery of the Bonds, signed by an Authorized Officer of the District;

(4) Such further documents and moneys as are required by the Series Resolution authorizing such Bonds; and

(5) A certificate of an Authorized Officer of the District to the effect that, upon the delivery of the Bonds, the District will not be in default in the performance of the terms and provisions of the Resolution.]

2.03 Dates, Form of Bonds and Bond Proceeds. 1. Each Series of Bonds shall mature on ~~{January 1 of each year in which a maturity is provided for by}~~ [such dates and in such amounts, bear interest at such rate or rates payable on such dates, and be subject to redemption upon such terms all as provided in] the Series Resolution authorizing the issuance of such Series of Bonds. ~~{Interest on all Bonds of each Series shall be payable semiannually on January 1 and July 1 of each year in which an installment of interest becomes due as fixed by a Series Resolution.}~~ All Bonds of each installment of a Series of like maturity shall be identical in all respects except as to denominations and numbers and ~~{except that they may be in either coupon form registrable as to principal only or}~~ in fully registered form without coupons. ~~{For the purpose of this Section 203 only, the subseries of STARS (as defined in the applicable Series Resolution), the subseries of STRIPES (as defined in the applicable Series Resolution) and the Fixed Rate Bonds (as defined in the applicable Series Resolution) shall each be treated as an individual series of Bonds.}~~

2. The proceeds, including accrued interest, of the Bonds of each Series shall be applied simultaneously with the delivery of such Bonds, as follows:

(1) There shall be deposited in the Debt Service Account (i) an amount equal to the accrued interest on such Bonds to the date of such delivery, and (ii) if and to the extent provided in the Series Resolution authorizing such Bonds, such additional amount as may be necessary so that the sum deposited in such Account shall equal the unpaid interest accrued and to accrue on all Bonds issued for such Project to a date not later than ~~{one year subsequent to}~~ the estimated date of completion of such Project, or such longer period ~~{if authorized by the Act}~~ [as may be provided by the Series Resolution authorizing the issuance of such Series of Bonds];

(2) There shall be deposited in the Debt Reserve Account the amount, if any, provided for by the Series Resolution authorizing the issuance of such Series of Bonds; and

(3) The remaining balance shall be deposited in the Construction Fund.

2.04 Additional Bonds. 1. ~~{Except for the initial \$75,000,000 of Bonds issued hereunder, the District will not issue any Bonds or other obligations or create any additional indebtedness.}~~ [The District may from time to time issue Bonds pursuant to a Series Resolution] which will rank on a parity with ~~{or have priority over the}~~ [and be secured by an equal] charge and lien on the Revenues ~~{except that Bonds may be issued from time to time pursuant to Series Resolutions on a parity and secured by an equal charge and lien on such Revenues}~~ [, upon satisfaction of the conditions to the issuance of Bonds contained in Section 2.02,] only if,

(a) Revenues Available For Debt Service, adjusted as provided in paragraph 3 hereof, of any 12 consecutive calendar months out of the 24 calendar months next preceding the issuance of such proposed additional Bonds, are not less than one and ~~twenty~~ **[ten]** hundredths (~~1 20/100ths~~) **[10/100ths]** times the maximum total Debt Service ~~and Prior Lien Debt Service~~ for any succeeding year on all Bonds ~~and Prior Lien Bonds~~ which will be outstanding immediately prior to the issuance of the proposed additional Bonds, **[and]** (b) the estimated Revenues Available For Debt Service, adjusted as provided in paragraph 4 hereof, for each of the five (5) Fiscal Years immediately following the issuance of such proposed additional Bonds are not less than one and ~~thirty-five~~ **[ten]** hundredths (~~1 35/100ths~~) **[10/100ths]** times the total, for each such respective Fiscal Year, of the Debt Service ~~and Prior Lien Debt Service~~ on all ~~Bonds and Prior Lien Bonds which will be outstanding immediately subsequent to the issuance of the proposed additional Bonds, and (c) the estimated Revenues Available For Debt Service, adjusted as provided in paragraph 4 hereof, for such fifth Fiscal Year are not less than one and thirty-five hundredths (1 35/100ths) times the maximum total of Debt Service and Prior Lien Debt Service for any succeeding year on all Bonds and Prior Lien~~ Bonds which will be outstanding immediately subsequent to the issuance of the proposed additional Bonds.

2. Prior to the issuance of any additional Bonds evidencing additional indebtedness, the payment of principal, interest and Redemption Price of which additional Bonds will be a lien on the Revenues on a parity with previously issued Series of Bonds, the District shall obtain a certificate of an Authorized Officer of the District evidencing full compliance with the provisions of ~~clause~~ **[clauses]** (a) ~~of subsection 1 of this Section~~ and ~~a certificate of an Authorized Officer of the District, which certificate shall be approved by the Consulting Engineer, evidencing full compliance with the provisions of clauses~~ (b) ~~and (c)~~ of subsection 1 of this Section.

3. In determining the amount of Revenues Available For Debt Service for the purposes of clause (a) of subsection 1 of this Section, the Authorized Officer of the District may adjust the Revenues Available For Debt Service by adding thereto the following:

(i) in the event the District shall have acquired an operating utility or facility subsequent to the beginning of the 12 month period selected pursuant to clause (a) of subsection 1 of this Section, an estimate made by an Authorized Officer of the District of such additional Revenues Available For Debt Service for such 12 month period which would have resulted had such operating utility or facility been acquired at the beginning of such 12 month period; ~~and~~

(ii) in the event any adjustment of rates with respect to the Electric System shall have become effective subsequent to the beginning of the 12 month period selected pursuant to clause (a) of subsection 1 of this Section, an estimate made by an Authorized Officer of the District of such additional Revenues Available For Debt Service for such 12 month period which would have resulted had such rate adjustment been in effect for the entire period[; and]

~~4. In determining the amount of estimated Revenues Available For Debt Service for the purpose of clauses (b) and (c) of subsection 1 of this Section, the~~ **[(iii) an estimate made by an]** Authorized Officer of the District ~~with the approval of the Consulting Engineers may adjust the~~ **[of the amounts from the Rate Stabilization Fund which have been transferred to pay Debt Service for the 12 month period selected pursuant to clause (a) of subsection 1 of this Section.**

4. In determining the amount of] estimated Revenues Available For Debt Service ~~by adding thereto any estimated increase in revenue resulting from any increase in electric rates which, in the opinion of~~ **[for the purpose of clause (b) of subsection 1 of this Section,]** the Authorized Officer of the District ~~and the Consulting Engineers~~ **[may adjust the estimated Revenues Available For Debt Service by adding thereto any estimated increase in revenue resulting from any increase in electric rates or any amount on deposit in the Rate Stabilization**

Fund which is expected to be transferred by the District to pay Debt Service or to offset any increase in electric rates, which, in the opinion of the Authorized Officer of the District], are economically feasible, and reasonably considered necessary based on projected operations for such 5 year period.

5. The ~~{certificates}~~ **[certificate]** required by subsection 2 of this Section shall be conclusive evidence and the only evidence required to show compliance with the provisions and requirements of this Section.

2.05 Refunding Bonds. 1. One or more Series of Refunding Bonds may be issued at any time to refund ~~{(a)}~~ any part or all of the ~~{Bonds of any one or more Series then Outstanding, or (b) any part or all of the Prior Lien}~~ Bonds of any one or more Series then Outstanding. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Debt Service Fund required by the provisions of this Section or by the provisions of the Series Resolution authorizing such Bonds.

2. Refunding Bonds of each Series issued ~~{pursuant to clause (a) of subsection 1 of this Section}~~ to refund any part or all of the Bonds of any one or more Series then Outstanding may be delivered by the District upon receipt by the Trustee of:

(a) Irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be refunded on a redemption date specified in such instructions;

(b) If the Bonds to be refunded are not by their terms subject to redemption within the next succeeding 60 days, irrevocable instructions to the Trustee, satisfactory to it, to make due publication of the notice provided for in Section 12.01 to the Holders of the Bonds ~~{and coupons}~~ being refunded;

(c) Either (i) moneys in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which moneys shall be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for ~~{and}~~ **[the benefit of such Refunding Bonds until such time as such amount shall be]** assigned to the respective Holders of the Bonds to be refunded ~~{, or (ii) Investment}~~ **[for payment of the Redemption Price of the Bonds to be refunded, together with accrued interest, on the redemption date, or (ii) Defeasance]** Securities in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of subsection 2 of Section 12.01 and any moneys required pursuant to said subsection 2, which ~~{Investment}~~ **[Defeasance]** Securities and moneys shall be held in trust and used only as provided in ~~{said}~~ subsection **[2.05(c)(i) above]**; and

(d) ~~{A}~~ **[Either (i) a]** certificate of an Authorized Officer of the District ~~{setting forth (i)}~~ **[as required by paragraph 2 of Section 2.04 or (ii) a certificate of an Authorized Officer of the District setting forth (1)]** the Aggregate Debt Service for the then current and each future Fiscal Year to and including the Fiscal Year next preceding the date of the latest maturity of any Bonds of any Series then Outstanding (A) with respect to the Bonds of all Series Outstanding immediately prior to the date of delivery of such Refunding Bonds, and (B) with respect to the Bonds of all Series to be Outstanding immediately thereafter, and ~~{(ii)}~~ **[(2)]** that the Aggregate Debt Service set forth for each Fiscal Year pursuant to (B) above is no greater than that set forth for such Fiscal Year pursuant to (A) above.

The proceeds, including accrued interest, of the Refunding Bonds of each such Series shall be applied simultaneously with the delivery of such Bonds in the manner provided in the Series Resolution authorizing such Bonds.

3 ~~{ Refunding Bonds of a Series issued pursuant to clause (b) of subsection 1 of this Section to refund any part or all of the Prior Lien Bonds of any one or more Series then outstanding may be delivered by the District upon receipt by the Trustee of:~~

~~(a) Evidence, satisfactory to the Trustee, that the pledge of the revenues and other moneys and securities under the Prior Lien bond Resolutions and all covenants, agreements and other obligations of the District thereunder to holders of the Prior Lien Bonds being refunded shall have ceased, terminated and become void and shall be discharged and satisfied; and~~

~~(b) Each of the certificates referred to in subsection 2 of Section 2.04, the requirements of which are hereby made applicable to such Series of Refunding Bonds.~~

~~The proceeds, including accrued interest, of the Refunding Bonds of such Series shall be applied simultaneously with the delivery of such Bonds as follows: (i) There shall be deposited in the debt service Account in the Debt Service Fund an amount equal to the accrued interest on such bonds to the date of such delivery; (ii) There shall be deposited in the Debt Reserve Account in the Debt Service Fund the amount, if any, required for such purpose by the Series Resolution authorizing such Refunding Bonds; and (iii) The remaining balance shall be applied to the refunding of the Prior Lien Bonds, including expenses in connection therewith.~~

4}. Any balance of the proceeds of Refunding Bonds not needed for the purposes provided in this Section or in the Series Resolution authorizing such Bonds may be used by the District, to the extent necessary, to pay any expenses incurred in connection with the issuance of such Refunding Bonds and, thereafter, any remaining balance not so needed by the District shall be deposited in the Revenue Fund.

[2.06 Separately Financed Projects. Nothing in this Resolution shall prevent the District from authorizing and issuing bonds, notes or other obligations or evidences of indebtedness, other than Bonds, for any project authorized by the Act, or from financing any such project from other available funds (such project being referred to herein as a "Separately Financed Project"), if the debt service on such bonds, notes, or other obligations or evidences of indebtedness, if any, and the District's share of any operating expenses related to such Separately Financed Project, are payable solely from the revenues or other income derived from the ownership or operation of such Separately Financed Project.]

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

3.01 Execution [and Authentication. 1]. Bonds of each Series shall be signed by the ~~{president or vice president and the secretary or assistant secretary}~~ **[President or Vice President and the Secretary or Assistant Secretary]** of the District, either manually or by their printed, engraved or lithographed facsimile signatures, with the seal of the District or a facsimile thereof affixed thereto, as fixed by a Series Resolution. Each Bond of each Series shall be numbered and shall bear the date of its issue as provided by Series Resolution, so as to be distinguished from every other Bond. ~~{Coupons for the several installments of interest shall be attached to each coupon Bond and shall bear the facsimile signature of the Secretary or Assistant Secretary, as fixed by Series Resolution.}~~ Bonds shall express on their faces that they are signed by authority of Article 7 of the Act. Bonds shall be valid and binding obligations notwithstanding that before the delivery thereof and payment therefor either or both of the persons whose signatures appear thereon shall have ceased to be such officers of the District. All Bonds shall be payable as to interest, principal and premium, if any, in any coin or currency

which, on the respective dates of payment thereof, shall be legal tender for the payment of public and private debts.

[2. Except as otherwise provided in a Series Resolution with respect to the Series of Bonds authorized thereunder, Bonds shall bear thereon a certificate of authentication, in the form set forth in the Series Resolution authorizing such Series of Bonds, executed manually by the Trustee. Except as otherwise provided in a Series Resolution with respect to the Series of Bonds authorized thereunder, no Bond shall be entitled to any right or benefit under the Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of the District shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under the Resolution and that the Owner thereof is entitled to the benefits hereof.]

3.02 Form, Ownership and Transfer of Bonds. Bonds of each Series may be issued in the form of ~~{coupon Bonds registrable as to principal only, or in the form of}~~ fully registered Except as otherwise provided in a Series Resolution with respect to the Series of Bonds authorized thereunder, no Bond shall be entitled to any right or benefit under the Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of the District shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under the Resolution and that the Owner thereof is entitled to the benefits hereof.

3.02 Form, Ownership and Transfer of Bonds. Bonds of each Series may be issued in the form of fully registered Bonds without coupons, ~~{or as a combination thereof,}~~ all as provided by the Series Resolution authorizing each Series. ~~{The coupon Bonds, except while registered as to principal otherwise than to bearer, and coupons, shall pass by delivery as negotiable instruments payable to bearer. The registration of any coupon Bond as to principal only shall not affect the negotiability of the coupons thereto appertaining, which shall remain payable to bearer and pass by delivery.}~~ The District, the Trustee, the Paying Agents and any other person may treat the ~~{bearer (or if such Bond be registered, the Registered Owner) of any coupon Bond, the}~~ registered owner of any registered Bond, ~~{the bearer of any coupon Bond registered as payable to bearer, and the bearer of any coupon whether or not the Bond to which said coupon appertains is registered as to principal,}~~ as the absolute owner of such Bond ~~{or coupon, as the case may be,}~~ for the purpose of making payment thereof and for all other purposes, and neither the District nor the Trustee nor the Paying Agents shall be bound by any notice or knowledge to the contrary, whether such Bond ~~{or coupon}~~ shall be overdue or not. All payments of or on account of interest to ~~{any bearer of any coupon, or to any}~~ registered owner of any registered Bond (or to his registered assigns), and all payments of or on account of principal to ~~{any bearer (or if such Bond be registered, the}~~ ~~{registered owner, or to any bearer of any bond registered to bearer} of any coupon Bond, or to any}~~ registered owner of any registered Bond, shall be valid and effectual and shall be a discharge of the District, the Trustee and the Paying Agents, in respect of the liability upon the Bond or ~~{coupon or}~~ claim for interest, as the case may be, to the extent of the sum or sums so paid.

3.03 ~~{Registration of Coupon Bonds. Upon presentation to the District by any bearer of any coupon Bond containing provisions for registration as to principal only for the purpose of registering such Bonds as to principal only, the District will, under such reasonable regulations as it may prescribe from time to time, register in books it will keep for this purpose, in the name of the bearer or his nominee, the ownership as to principal only, of any such presented coupon bond, and}~~ [Book-Entry-Only System. Notwithstanding any other provision of the Resolution, the District may employ a book-entry-only system of registration with respect to any Series of Bonds. The procedures regarding] such registration shall be ~~{noted on the Bond. After such registration and notation, no transfer of any such coupon Bond registered otherwise~~

than as to bearer shall be valid unless evidenced by a written instrument of transfer, in form satisfactory to the District, duly executed by the registered owner in person or by his duly authorized agent; but any such coupon Bond so registered may be discharged from registration, and transferability by delivery be restored, by a like transfer to bearer, similarly registered and noted, and after such transfer to bearer such Bond shall be a bearer Bond. Any such coupon Bond containing provisions for registration may again, from time to time, in like manner, be registered as to principal only, or be transferred to bearer.} [set forth in the Series Resolution authorizing such Series of Bonds and the District may, if necessary, amend the Resolution pursuant to Section 10.01 to achieve such book-entry-only registration system. Notwithstanding the foregoing, any provisions of the Resolution inconsistent with book-entry-only Bonds shall not be applicable to such book-entry-only Bonds.]

3.04 Transfer of Registered Bonds. ~~{Except as herein provided in the case of coupon Bond registrable as to principal only, the}~~ [The] Trustee shall keep, as Bond Registrar (hereinafter referred to as the "Registrar") at all times while any of the Bonds containing provisions for registration and transfer shall be outstanding and unpaid, books for the registration and transfer of such Bonds. Any registered Bond containing provisions for transfer may be transferred pursuant to the provisions thereof at the principal office of the Registrar by surrender of such Bond for cancellation, accompanied by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner in person or by his duly authorized agent, and thereupon the District will issue and deliver at the office of the Registrar (or send by registered mail to the owner thereof at the owner's expense), in the name of the transferee or transferees, a new registered Bond, of like Series, form, interest rate, principal amount and maturity, dated so that there shall result no gain or loss of interest as a result of such transfer. To the extent of denominations authorized in respect of any such Bond by the terms thereof, or by the terms of this Resolution, one such registered Bond may be transferred for several such registered Bonds of like Series, form, interest rate and maturity, and for a like aggregate principal amount, and several such registered Bonds may be transferred for one or several such registered Bonds, respectively, of like Series, form, interest rate and maturity and for a like aggregate principal amount. If so provided in the Series Resolution, the District or the Bond Registrar shall not be obligated to transfer or exchange any registered Bonds of such Series during the 15 days preceding the date on which notice of redemption of a Bond is to be given or any Bond that has been called for redemption except the unredeemed portion of any Bond being redeemed in part.

3.05 Exchange of Bonds. The ~~{bearer of any coupon Bond which at the time is not registered or is registered as to principal to bearer, and the}~~ registered owner of any registered Bond ~~{or any coupon Bond registered as to principal otherwise than to bearer,}~~ may at any time (provided such Bond shall not have been called for redemption) surrender the same at the principal office of the Registrar ~~{in the case of coupon Bonds with all unmatured coupons attached, and in the case of registered Bonds or coupon Bonds registered as to principal,}~~ with instruments of transfer satisfactory to the Registrar, and shall be entitled to receive in exchange therefor an equal aggregate principal amount of Bonds of the same Series, interest rate and maturity, of any one or more of the forms, the issue of which has been provided for with respect to such Series: and the District will issue and deliver at the principal office of the Registrar (or send by registered mail to the owner thereof at the owner's expense) the Bonds necessary to make such exchange.

2. Upon the issue of any registered Bond, the serial number or numbers covering a ~~{coupon}~~ Bond or Bonds of the same Series, interest rate and maturity and an equal aggregate principal amount may be reserved. The serial number or numbers so reserved shall be endorsed on such registered Bond, which may also bear such endorsement or legend satisfactory to the Registrar as may be required to conform to usage or law with respect thereto.

3. Whenever registered Bonds with proper instruments of transfer shall be surrendered to the Registrar for exchange for ~~{coupon}~~ Bonds of like Series, interest rate and maturity, the District shall issue and deliver at the principal office of the Registrar (or send by registered mail to the owner thereof at the owner's expense) in exchange a like principal amount of ~~{coupon}~~ Bonds of the same Series, interest rate and maturity, ~~{in bearer form,}~~ bearing the serial number or numbers so reserved upon the issuance of the registered Bond or Bonds so surrendered, ~~{bearing coupons}~~ so that no gain or loss of interest shall result from such exchange.

~~{4. All coupon Bonds or the coupon appertaining to such Bonds surrendered in any such exchanges or transfers shall be retained in the possession of the Trustee for the purpose of reissuance upon subsequent exchanges or transfers. The Trustee, prior to reissuance of any such coupon Bonds, shall detach therefrom and cancel all matured coupons.}~~

3.06 Charges for and Validity of Bonds Exchanged. 1. As a condition of any exchange or of any registration or transfer, the District at its option may require the payment of a sum sufficient to reimburse it for any stamp tax or other governmental charge that may be imposed thereon. All Bonds executed and delivered in exchange for or upon transfer of Bonds so delivered shall be valid obligations of the District evidencing the same obligation as the Bonds surrendered, and shall be entitled to all the benefits and protection of this Resolution and of the Series Resolution authorizing the issuance of such Bond to the same extent as the Bonds in exchange for or upon transfer of which they were executed and delivered.

2. Anything herein to the contrary notwithstanding, the cost of preparing each new ~~{coupon Bond or}~~ registered Bond upon each exchange or transfer, and any other expenses of the District, or the Trustee, incurred in connection therewith (except any applicable governmental transfer or stamp tax or other charge) shall be paid by the District from the Revenue Fund as an Operating Expense.

3.07 Mutilated, Destroyed and Lost Bonds ~~{and Coupons}~~. In case any Bond ~~{or any coupons thereto appertaining}~~ shall at any time become mutilated or be lost or destroyed, the District in its discretion may execute and deliver a new Bond ~~{or coupons}~~ of like tenor and effect in exchange or substitution for and upon the surrender and cancellation of such mutilated Bond ~~{or coupons appertaining thereto}~~; or in lieu of or in substitution for such destroyed or lost Bond ~~{or coupons}~~, or if such lost Bond ~~{or coupons}~~ shall have matured, instead of issuing a substitute therefor, the District may at its option pay the same without the surrender thereof. ~~{In any event}~~ **[No such substitute Bond shall be issued unless]** the applicant for the issuance ~~{of a substitute Bond or coupons}~~ **[thereof]** shall furnish to the District evidence satisfactory to it of the destruction or loss of the original Bond ~~{or coupons}~~, and ~~{of}~~ the ownership thereof, and also an indemnity bond satisfactory to the District in an amount equal to twice the amount of each such Bond ~~{or coupon}~~, and ~~{no such substitute Bond or coupons shall be issued unless}~~ the applicant for the issuance thereof shall reimburse the District for the expenses incurred by the District in connection with the preparation, execution, issuance and delivery of the substitute Bond ~~{or coupons}~~, and any such substitute Bond ~~{or coupons}~~ shall be equally and proportionately entitled to the security of this Resolution with all other Bonds ~~{and coupons}~~ issued. Notwithstanding anything to the contrary contained in this Section 3.07, the District may at its option waive the requirement of an indemnity bond ~~{with respect to}~~ **[and the payment expenses incurred by the District in connection with the delivery of a substitute Bond for any]** mutilated, destroyed ~~{and lost Bonds when such Bonds are issued in fully registered form without coupons and are not exchangeable for bearer Bonds.}~~ **[or lost Bond.]**

3.08 Temporary Bonds. 1. Until the definitive Bonds of any Series are prepared, the District may execute, in the same manner as is provided in Section 3.01, and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive ~~{coupon}~~ Bonds except as to the denominations thereof and as to exchangeability for registered Bonds, one or more temporary Bonds (which may be registrable as to principal and interest)

substantially of the tenor of the definitive ~~{coupon}~~ Bonds in lieu of which such temporary Bond or Bonds are issued, ~~{but with or}~~ without coupons, in denominations of \$5,000 or any multiples thereof authorized by the District, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. ~~{The installments of interest payable on such temporary Bonds in bearer form shall be payable only upon the presentation and surrender of the coupons therefor attached thereto or upon presentation of such temporary Bonds for notation thereon of the payment of such interest.}~~ The District at its own expense shall prepare and execute and, upon the surrender of such temporary Bonds, ~~{with all unmatured coupons, and all matured coupons for which no payment or only partial payment has been provided, attached,}~~ for exchange and the cancellation of such surrendered temporary Bonds ~~{and coupons}~~, the Trustee shall authenticate and, without charge to the Holder thereof, deliver in exchange therefor, ~~{definitive coupon Bonds, with appropriate coupons attached or, at the option of the Holder,}~~ definitive registered Bonds, of the same aggregate principal amount and series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to the Resolution.

2. All temporary Bonds surrendered in exchange either for another temporary Bond or Bonds or for a definitive Bond or Bonds shall be forthwith cancelled by the Trustee.

3.09 Cancellation and Destruction of Bonds ~~{or Coupons}~~. All Bonds paid or redeemed, either at or before maturity, ~~{together with all unmatured coupons, if any, appertaining thereto,}~~ shall be delivered to the Trustee when such payment or redemption is made, and such Bonds ~~{and coupons}~~, together with all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. ~~{All interest coupons shall be promptly cancelled upon their payment and delivered to the Trustee.}~~ Bonds ~~{and coupons}~~ so cancelled may at any time be cremated or otherwise disposed of by the Trustee, who shall execute a certificate of cremation or disposition in duplicate by the signature of one of its authorized officers describing the Bonds ~~{and coupons}~~ so cremated or disposed of, and one executed certificate shall be filed with the District and the other executed certificate shall be retained by the Trustee.

ARTICLE IV

REDEMPTION OF BONDS

4.01 Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to any Series Resolution shall be redeemable, upon published notice as provided in this Article IV, at such times, at such Redemption Prices and upon such terms in addition to the terms contained in this Article IV as may be specified in this Resolution or in the Series Resolution authorizing such Series.

4.02 Redemption at the Election or Direction of the District. In the case of any redemption of Bonds at the election or direction of the District, the District shall give written notice to the Trustee of its election or direction so to redeem, of the redemption date, of the Series, and of the principal amounts of the Bonds of each maturity of such Series to be redeemed (which Series maturities and principal amounts thereof to be redeemed shall be determined by the District in its sole discretion, subject to any limitations with respect thereto contained in the Resolution). In the event notice of redemption shall have been given as in Section 4.05 provided, there shall be paid prior to the redemption date to the appropriate Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agents, will be sufficient to redeem on the redemption date at the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, all of the Bonds to be redeemed. The District shall promptly notify the Trustee in writing of all such payments by it to a Paying Agent.

4.03 Redemption Otherwise Than at District's Election or Direction. Whenever by the terms of the Resolution the Trustee is required or authorized to redeem Bonds otherwise than at

the election or direction of the District, the Trustee shall select the Bonds to be redeemed, give the notice of redemption and pay out of moneys available therefor the Redemption Price thereof, plus interest accrued and unpaid to the redemption date to the appropriate Paying Agents in accordance with the terms of this Article IV and, to the extent applicable, Section 5.07.

4.04 Selection of Bonds to be Redeemed. If less than all of the Bonds of like maturity of any Series shall be called for prior redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided, however, that the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof, and that, in selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

4.05 Notice of Redemption. [1.] When the Trustee shall receive notice from the District of its election or direction to redeem Bonds pursuant to Section 4.02, and when redemption of Bonds is authorized or required pursuant to Section 4.03, the Trustee shall give notice, in the name of the District, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed and in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed[, **and, if applicable, that such notice is conditional and the conditions that must be satisfied**]. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be given by publication once a week for at least two successive weeks in the Authorized Newspapers, the first such publication to be not less than 30 days nor more than 60 days prior to the redemption date. If so provided in the Series Resolution, the Trustee shall also mail a copy of such notice, postage prepaid, not less than 25 days before nor more than 50 days prior to the redemption date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books. ~~The Trustee shall in the case of redemption pursuant to Section 4.02 hereof give notice required by this Section, regardless of whether it has on deposit sufficient funds to effect such redemption.~~ If, at the time of giving notice of redemption, no Bonds of the Series to be redeemed are outstanding except fully registered Bonds, publication of such notice shall not be required.

[2. The Trustee shall in the case of redemption pursuant to Section 4.02 hereof give notice required by this Section, regardless of whether it has on deposit sufficient funds to effect such redemption. Any notice of optional redemption given pursuant to this Section may state that it is conditional upon receipt by the Trustee of moneys sufficient to pay the Redemption Price of such Bonds or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such Redemption Price if any condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Trustee to the registered owners of any Bonds so affected as promptly as practicable upon the failure of such condition or the occurrence of such event.]

4.06 Payment of Redeemed Bonds. Notice having been given by publication in the manner provided in Section 4.05, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus

interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, ~~together with, in the case of coupon Bonds, all appurtenant coupons maturing subsequent to the redemption date,~~ such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date ~~not represented by coupons for matured interest installments. All interest installments represented by coupons which shall have matured on or prior to the redemption date shall continue to be payable to the bearers of such coupons.~~ If there shall be drawn for redemption less than all of a Bond, the District shall execute and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, ~~at the option of the owner thereof, either coupon Bonds or~~ registered Bonds of like Series and maturity in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on said date and if notice of redemption shall have been published as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue and become payable, ~~and the coupons for interest appertaining thereto maturing subsequent to the redemption date shall be void.~~ If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

ARTICLE V

ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

5.01 The Pledge Effected by the Resolution. The Bonds are special obligations of the District payable from and secured by the funds pledged therefor. There are hereby pledged for the payment of the principal and Redemption Price of, and interest on, the Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, (i) the proceeds of sale of the Bonds, (ii) the Revenues and, (iii) all Funds [**(except the Rate Stabilization Fund)**] established by the Resolution, including the investments, if any, thereof. ~~The pledge created hereby, insofar as it relates to the Revenues is hereby expressly declared to be, subject and subordinate in all respects to the pledges and liens created by the Prior Lien Bond Resolutions and subject to the transfers permitted under Section 5.06(2) hereof.~~

2. Such proceeds of sale of the Bonds, the Revenues (subject to the ~~pledges and liens created by the Prior Lien Bond Resolutions and subject to the~~ transfers permitted under Section 5.06~~(2)~~ hereof) and the other moneys and securities hereby pledged shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the District, irrespective of whether such parties have notice thereof.

5.02 Establishment of Funds. The following Funds and Accounts are hereby created and established:

- (1) Salt River Project Electric System Construction Fund, to be held by the District,
- (2) Salt River Project Electric System Revenue Fund, to be held by the District,
- (3) Salt River Project Electric System Debt Service ~~Fund~~ [**Account**], to be held by the Trustee

~~†~~
~~(4) Salt River Project Electric System Debt Service Account, to be held by the~~
~~Trustee,~~

~~†(5)†~~

~~[(4)] Salt River Project Electric System Debt Reserve Account, to be held by the~~
~~Trustee,~~

[(5) Salt River Project Electric System Rate Stabilization Fund, to be held by the
District, and]

(6) Salt River Project Electric System Redemption Fund, to be held by the Trustee.

5.03 Construction Fund. 1. There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of the Resolution, and there may be paid into the Construction Fund, at the option of the District, any moneys received for or in connection with the Electric System by the District from any other source, unless required to be otherwise applied as provided by the Resolution.

2. The proceeds of insurance maintained pursuant to the Resolution against physical loss of or damage to a Project, or of contractors' performance bonds with respect thereto, pertaining to the period of construction thereof, shall ~~†, unless otherwise required to be applied by the Prior Lien Bond Resolutions,†~~ be paid into the Construction Fund.

3. Unless otherwise provided herein, amounts in the Construction Fund shall be applied to the purpose or purposes specified in the Series Resolution authorizing the Bonds.

4. Notwithstanding any of the other provisions of this Section, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds when due.

5. Amounts in the Construction Fund shall be invested by the District to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay the Cost of Construction or such other purpose to which such moneys are applicable. The District may, and to the extent required for payments from the Construction Fund shall, sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Construction Fund. Interest received on moneys or securities in the Construction Fund shall be deposited in the Construction Fund.

5.04 Revenues and Revenue Fund. The Revenue Fund is hereby created and established and there shall be promptly deposited by the District to the credit of the Revenue Fund all Revenues.

5.05 Payment of Operating Expenses. ~~†1.†~~ The District **[(a)]** shall ~~†(a)†~~ out of the moneys in the Revenue Fund, pay, free and clear of any lien or pledge created by the Resolution, all amounts required for reasonable and necessary Operating Expenses, and (b) **[may]** at all times retain in the Revenue Fund amounts deemed by the District to be reasonable and necessary for working capital and reserves for Operating Expenses including expenses which do not recur annually; provided that the total amount of such reserves set aside during any year shall not exceed 20% of the amount of Operating Expenses for such year.

~~†2. Notwithstanding the foregoing provisions of this Section, prior to the Retirement Date of Prior Lien Bonds, no moneys in the Revenue Fund shall be applied to the payment of any such Operating Expenses (or reserves therefor) the payment of which shall be provided for pursuant to the Prior Lien Bond Resolutions.†~~

5.06 Payments Into Certain Funds. [1.] The District shall out of the moneys in the Revenue Fund not retained therein pursuant to Section 5.05, on or before ~~the first working day of each month allocate~~ **[each date for the payment of Debt Service]**, transfer and apply such amount **[to]** ~~as follows and in the following order:~~

~~(1) To~~ the Debt Service Fund (i) for credit to the Debt Service Account, to the extent required so that the balance in said Account shall equal the ~~Accrued~~ Aggregate Debt Service; provided that, for the purposes of computing the amount to be allocated to said Account, there shall be excluded the amount, if any, set aside in said Account which was deposited therein from the **[Rate Stabilization Fund or from the]** proceeds of Bonds less an amount equal to the interest accrued and unpaid and to accrue on Bonds (or any Refunding Bonds issued to refund Bonds) to the last day of the then current calendar month; and (ii) for credit to the Debt Reserve Account, an amount equal to one-twelfth of twenty percent (1/12 of 20%) of the amount necessary to make the total **[amount of]** moneys on deposit ~~in the Debt Reserve Account~~ **[therein]** equal to the Debt Reserve Requirement; provided, however, that no deposits ~~need be made into the~~ **[shall be required if the District shall deposit a]** Debt Reserve Account ~~when the amount on deposit therein shall equal or exceed \$99,277,000.~~ **[Credit Facility in the Debt Reserve Account in satisfaction of the Debt Reserve Requirement.]**

~~(2) The District shall~~

[2. The District may] out of the moneys in the Revenue Fund not retained therein pursuant to Section 5.05 ~~and not~~ **[or]** applied pursuant to ~~Section 5.06(1), on or before the first working day of each month transfer~~ **[paragraph 1 of this Section 5.06, upon a determination by an Authorized Officer of the District at any time prior to the next Debt Service payment date that sufficient funds are or will be available in the Debt Service Account to pay Debt Service on the next Debt Service payment date and that sufficient moneys, securities or a Debt Reserve Account Credit Facility equal to the Debt Reserve Requirement are or will be on deposit in the Debt Reserve Account to satisfy the Debt Reserve Requirement, transfer such amount as follows and in the following order:**

(1) To the Rate Stabilization Fund, an amount deemed necessary by the District which may be used by the District for any lawful purpose; and

(2) To the General Fund, any] such remaining balance in the Revenue Fund ~~to the General Fund of the District~~. Any amount so transferred to the General Fund of the District may be used by the District for any lawful purpose.

Provided, however, that so long as there shall be held in the Debt Service Fund an amount sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made into the Debt Service Fund.

5.07 Debt Service Fund ~~+~~ **[.] Debt Service Account.** 1. The Trustee shall pay out of the Debt Service Account to the respective Paying Agents (i) on or before each interest payment date for any of the Bonds, the amount required for the interest payable on such date; (ii) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (iii) on or before the day preceding any redemption date for the Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents on and after the due dates thereof. The Trustee shall also pay out of the Debt Service Account the accrued interest included in the purchase price of the Bonds purchased for retirement.

2. Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) may and, if so directed by the District, shall be applied by the Trustee, on or prior to the 60th day preceding the due date of

such Sinking Fund Installment, to (i) the purchase of Bonds of the Series ~~and maturity~~ for which such Sinking Fund Installment was established, or (ii) the redemption at the applicable sinking fund Redemption Prices pursuant to Article IV, of such Bonds, if then redeemable by their terms. After the 60th day but on or prior to the 40th day preceding the due date of such Sinking Fund Installment, any amounts then on deposit in the Debt Service Account (exclusive of amounts, if any, set aside in said Account which were deposited therein from the proceeds of additional Bonds) may and, if so directed by the District, shall be applied by the Trustee to the purchase of Bonds of the Series ~~and maturity~~ for which such Sinking Fund Installment was established in an amount not exceeding that necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. All purchases of any Bonds pursuant to this subsection 2 shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made in such manner as the Trustee shall determine. The applicable sinking fund Redemption Price (or principal amount of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Debt Service Account until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the 40th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, by giving notice as provided in Section ~~405~~ **[4.05]**, on such due date Bonds of the Series ~~and maturity~~ for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. The Trustee shall pay out of the Debt Service Account to the appropriate Paying Agents, on or before the day preceding such redemption date (or maturity date), the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amount shall be applied by such Paying Agents to such redemption (or payment). All expenses in connection with the purchase or redemption of Bonds shall be paid by the District from the Revenue Fund as an Operating Expense.

3. The amount, if any, deposited in the Debt Service Account from the proceeds of each Series of ~~bonds~~ **[Bonds]** shall be set aside in such Account and applied to the payment of interest on the Bonds of such Series (or Refunding Bonds issued to refund such Bonds) as the same becomes due and payable.

~~{5.08 Debt Service Fund}~~

Debt Reserve Account. 1. If on the first working day of any month the amount **[on deposit]** in the Debt ~~Service~~ **[Reserve]** Account shall be less than the ~~amount required to be in such Account pursuant to paragraph (1) of Section 5.06~~ **[Debt Reserve Requirement]**, the Trustee shall apply amounts from the Debt ~~Reserve Account~~ **[Service Fund]** to the extent necessary to make good the deficiency. **[In the event that there is on deposit in the Debt Reserve Account moneys and a Debt Reserve Account Credit Facility, the Trustee shall withdraw moneys prior to making a draw or claim, as the case may be, on a Debt Reserve Account Credit Facility.]**

2. ~~Whenever the amount~~ **[2. Whenever the moneys]** on deposit in the Debt Reserve Account shall exceed the Debt Reserve Requirement, such excess shall be allocated and applied by the District in the same manner as Revenues pursuant to Section 5.06.

3. Whenever the amount in the Debt Reserve Account, together with the amount in the Debt Service Account, is sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), the funds on deposit in the Debt Reserve Account shall be transferred to the Debt Service Account.

[4. The District may cause to be delivered to the Trustee for deposit into the Debt Service Account, and the Trustee shall upon its receipt so deposit, a Debt Reserve Account Credit Facility for the benefit of the Bondholders, which Debt Reserve Account Credit Facility shall be payable or available to be drawn upon, as the case may be (upon the giving of notice as

required thereunder), on any date on which a deficiency in the Debt Service Fund exists which cannot be cured by moneys in any other fund or account held hereunder and available for such purpose; provided, however, (i) if a disbursement is made under the Debt Reserve Account Credit Facility, the District shall either reinstate the maximum limits of such Debt Reserve Account Credit Facility within twelve (12) months following such disbursement equal to the Debt Reserve Requirement or deposit into the Debt Reserve Account moneys in the amount of the disbursement made under such Debt Reserve Account Credit Facility, or a combination of such alternatives as shall equal the Debt Reserve Requirement; (ii) if any such Debt Reserve Account Credit Facility for deposit in the Debt Service Reserve Fund is obtained and if six (6) months prior to the expiration thereof, the Debt Reserve Account is less than the Debt Reserve Requirement, the District shall cause the reinstatement of the maximum limits of such existing Debt Reserve Account Credit Facility, or shall obtain a substitute to the extent necessary to fund the Debt Reserve Account at the Debt Reserve Requirement; and (v) if a nationally recognized rating agency shall downgrade the rating of the Bonds, if any, as a result of such deposit of any such Debt Reserve Account Credit Facility or the rating of the provider thereof drops below the highest rating category for a nationally recognized rating agency, then the District shall deliver to the Trustee for deposit in the Debt Reserve Account a replacement of such Debt Reserve Account Credit Facility, in like amount and form acceptable to the Trustee and such that the nationally recognized rating agency will not reduce or withdraw their ratings, if any, on the Bonds, or deposit moneys in an amount sufficient to fund the Debt Reserve Account in an amount equal to the Debt Reserve Requirement within twelve (12) months following such downgrade.

5.08 Rate Stabilization Fund. 1. There may be deposited in the Rate Stabilization Fund any amounts deemed necessary by the District to be used for any lawful purpose of the District, including but not limited to making any deposits required by the Resolution to any Fund, as determined by the District; provided, however, that no such deposit to any such Fund shall be required; provided further, however, that if at any time the amounts in the Operating Fund or Debt Service Fund shall be less than the current requirements thereof, the District shall withdraw from the Rate Stabilization Fund and deposit in such other Funds the amount necessary (or all the moneys in the Rate Stabilization Fund, if less than the amounts necessary, applying available amounts in the order of priority and otherwise as specified in Section 5.06) to make up such deficiency. Amounts on deposit in the Rate Stabilization Fund may be invested by the District to the fullest extent practicable in Investment Securities. The District may sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Rate Stabilization Fund. Interest received on moneys or securities in the Rate Stabilization Fund shall be deposited in the Rate Stabilization Fund. Amounts in the Rate Stabilization Fund which the District may determine to be in excess of the amount required to be maintained therein shall be transferred to the Revenue Fund. Amounts on deposit in the Rate Stabilization Fund are not subject to the lien or pledge created by the Resolution.]

5.09 Subordinated Indebtedness. The District may, at any time, or from time to time, issue evidences of indebtedness payable out of Revenues and which may be secured by a pledge of Revenues provided, however, that such pledge shall be and shall be expressed to be, subordinate in all respects to the pledge of the Revenues, moneys, securities and funds created by the Resolution.

5.10 Redemption Fund. There shall be deposited in the Redemption Fund amounts required to be deposited therein pursuant to Sections 7.07 and 7.13 hereof. Amounts in the Redemption Fund shall be used by the District for the purchase or redemption of any Bonds, and expenses in connection with the purchase or redemption of any Bonds.

ARTICLE VI

DEPOSITARIES OF MONEYS, SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

6.01 Depositaries. All moneys held by the Trustee under the provisions of the Resolution shall be deposited with the Trustee, including one or more Depositaries in trust for the Trustee. All moneys held by the District under the Resolution shall be deposited in one or more Depositaries in the name of the District. All moneys deposited under the provisions of the Resolution with the Trustee or any Depositary shall be held in trust and applied only in accordance with the provisions of the Resolution, and each of the Funds established by the Resolution shall be a trust fund for the purposes thereof.

6.02 Deposits. All Revenues and other moneys held by any Depositary under the Resolution may be placed on demand or time deposit, if and as directed by the District, provided that such deposits shall permit the moneys so held to be available for use at the time when needed. The Depositary shall not be liable for any loss or depreciation in value resulting from any, investment made pursuant to the Resolution. Any such deposit may be made in the commercial banking department of any Fiduciary which may honor checks and drafts on such deposit with the same force and effect as if it were not such Fiduciary~~++~~ [.] All moneys held by any Fiduciary, as such, may be deposited by such Fiduciary, unless the District otherwise instructs, in its banking department on demand or, if and to the extent directed by the District and acceptable to such Fiduciary, on time deposit, provided that such moneys on deposit be available for use at the time when needed. Such Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size and under similar conditions or as required by law.

2. All moneys deposited with the Trustee and each Depositary shall be credited to the particular Fund or account to which such moneys belong.

6.03 Investment of Certain Funds. Money held in the Debt Service Account and ~~the~~ Debt Reserve Account shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such ~~Funds, and in the case of the Debt Reserve Account not later than fifteen years~~ [Accounts]. The Trustee shall make such investment in accordance with any instructions received from an Authorized Officer of the District.

Amounts in the Revenue Fund shall be invested and reinvested in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Fund.

[Amounts in the Rate Stabilization Fund shall be invested as set forth in Section 5.08.]

Net interest earned on any moneys or investments in such Funds and Accounts shall be paid into the Revenue Fund.

6.04 Valuation and Sale of Investments. Obligations purchased as an investment of moneys in any Fund created under the provisions of the Resolution shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to the respective Fund.

In computing the amount in any Fund created under the provisions of the Resolution for any purpose provided in the Resolution, obligations purchased as an investment of moneys therein shall be valued at cost or the principal amount thereof, whichever is lower, exclusive of accrued interest.

Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized Officer of the District so to do or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. The Trustee shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment.

ARTICLE VII

PARTICULAR COVENANTS OF THE DISTRICT

The District covenants and agrees with the Trustee and the Bondholders as follows:

7.01 Payment of Bonds. The District shall duly and punctually pay or cause to be paid, but solely from the Revenues and the proceeds of the Bonds pledged therefor by the Resolution, the principal or Redemption Price, if any, of every Bond and the interest thereon, at the dates and places and in the manner mentioned in the Bonds ~~and in the coupons thereto appertaining~~, according to the true intent and meaning thereof.

7.02 Extension of Payment of Bonds ~~and Coupons~~. The District shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or ~~the time of payment of any of the coupons or~~ claims for interest by the purchase or funding of such Bonds, claims for interest or by any other arrangement and in case the maturity of any of the Bonds or ~~the time for payment of any such coupons or~~ claims for interest shall be extended, such Bonds ~~coupons~~ or claims for interest shall not be entitled, in case of any default under the Resolution, to the benefit of the Resolution or to any payment out of Revenues of Funds established by the Resolution, including the investments, if any, thereof, pledged under the Resolution or the moneys (except moneys held in trust for the payment of particular Bonds ~~coupons~~ or claims for interest pursuant to the Resolution) held by the Fiduciaries, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended ~~coupon or~~ claims for interest. Nothing herein shall be deemed to limit the right of the District to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

7.03 Offices for Servicing Bonds. Unless otherwise provided by a Series Resolution with respect to Bonds of such Series, the District shall maintain one or more agencies ~~in each of the cities of New York, New York, Chicago, Illinois, and Phoenix, Arizona,~~ [as the District may so designate from time to time] where Bonds ~~and coupons~~ may be presented for payment and shall maintain one or more agencies in the City of New York, New York where Bonds may be presented for registration, transfer or exchange, and where notices, demands and other documents may be served upon the District in respect to the Bonds ~~and coupons~~ or to the Resolution. The District hereby appoints the Trustee as its agent to maintain such agency for the registration, transfer or exchange of Bonds, and for the service upon the District of such notices, demands and other documents and the Trustee shall continuously maintain or make arrangements for an office in the City of New York to perform such agency. The District ~~hereby appoints the~~ [may by Series Resolution appoint] Paying Agents ~~in such Cities~~ as its ~~respective~~ agents to maintain such agencies for the payment or redemption of Bonds ~~and coupons~~ [of such Series].

7.04 Further Assurance. At any and all times the District shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and

singular the rights, Revenues and other moneys, securities and funds hereby pledged or assigned, or intended so to be, or which the District may become bound to pledge or assign.

7.05 Power to Issue Bonds and Pledge Revenues and Other Funds. The District is duly authorized under all applicable laws to create and issue the Bonds and to adopt the Resolution and to pledge the Revenues and other moneys, securities and funds purported to be pledged by the Resolution in the manner and to the extent provided in the Resolution. Except to the extent otherwise provided in Section 5.01, the Revenues and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution, and all corporate or other action on the part of the District to that end has been and will be duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the District in accordance with their terms and the terms of the Resolution. The District shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under the Resolution and all the rights of the Bondholders under the Resolution against all claims and demands of all persons whomsoever.

7.06 Power to Operate Electric System and Collect Rates and Fees. The District has ~~{, and will have so long as any Bonds are Outstanding,}~~ good right and lawful power to construct, reconstruct, improve, maintain, operate and repair the Electric System, and to fix and collect rates, fees, rents and other charges in connection therewith.

7.07 Creation of Liens; Sale and Lease of Property. 1. The District shall not hereafter issue any bonds or other evidences of indebtedness ~~{, including any bonds issued pursuant to the Prior Lien Bond Resolutions,}~~ payable out of or secured by a pledge of any revenues or income of the Electric System, except as in this Resolution provided.

2. The District shall not issue any bonds or other evidences of indebtedness other than the Bonds, payable out of or secured by a pledge of any revenues or income of the Electric System or of the moneys, securities or funds held or set aside by the District or by the Fiduciaries under the Resolution and shall not create or cause to be created any lien or charge on any revenues or income of the Electric System, or such moneys, securities or funds; provided, however, that nothing contained in the Resolution shall prevent the District from issuing Subordinated Indebtedness as provided in Section 5.09 ~~{or Prior Lien Bonds in lieu of or in substitution for other Prior Lien Bonds in connection with servicing the Prior Lien Bonds or Prior Lien Bonds in connection with the refunding of Prior Lien Bonds,}~~ and provided further that the District may, for its authorized purposes, make or assume loans with the United States of America, which loans may be secured by lien on revenues and income of the Electric System prior to the lien of the Bonds issued hereunder.

3. ~~{Except as provided in subsections 4 and 5 of this Section, no}~~ **[The District may sell or exchange at any time and from time to time any property constituting]** part of the Electric System ~~{shall be sold, mortgaged, leased or otherwise disposed of or encumbered.}~~

4. ~~The District may sell or exchange at any time, and {from time to time any property constituting part of the Electric System and not necessary, in its opinion, in the operation thereof, and any proceeds of any such sale or exchange not applied in accordance with the Prior Lien Bond Resolutions shall be deposited, at the discretion of the District, in either the Construction Fund for the purpose of providing any real or personal property, or assets for the Electric System or in the Redemption Fund for application to the purchase or redemption of Bonds.}~~

5. ~~The District}~~ may lease or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the Electric System if ~~{such lease, contract, license, easement or right}~~ **[(i) in the sole judgment of the District it is advisable to take such action, (ii) such action shall not impair the ability of the District to make Debt**

Service payments, and (iii) such action] does not materially impede or unduly restrict the operation by the District of the Electric System. ~~{Any payments received by the District under or in connection with any such lease, contract, license, easement or right of way in respect of the Electric System or any part thereof on and after the Retirement Date of the Prior Lien Bonds shall constitute Revenues.}~~ **[Except as provided in Section 7.10, any proceeds of any such sale, exchange, lease, contract or license shall at the discretion of the District be deposited in the Redemption Fund for application to the purchase or redemption of Bonds or be applied for any lawful purpose.]**

~~{7.08 Consulting Engineers. The District shall, until the Bonds and the interest thereon shall have been paid or provisions for such payment shall have been made, for the purpose of performing and carrying out the duties imposed on the Consulting Engineers by the Resolution, employ an independent engineer or engineering firm or corporation having a favorable reputation for skill and experience in such work.}~~

[7.08 Reserved.]

~~{7.09 Annual Budget. Not less than 30 days prior to the beginning of each Fiscal Year, the District shall prepare an Annual Budget for the ensuing Fiscal Year. Each such Annual Budget shall include estimates for Operating Expenses for such year. Such Annual Budget may set forth such additional material as the District may determine. The District may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year.}~~

[7.09 Reserved.]

7.10 Operation and Maintenance of Electric System. The District shall at all times operate or cause to be operated the Electric System properly and in an efficient and economical manner, consistent with good business and utility operating practices, and shall maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the Electric System may be properly and advantageously conducted **[; provided, however, that nothing contained herein shall prevent the District from exercising its powers under Section 7.07 (3); provided further, however, that any sale-leaseback or lease-leaseback of any part of the Electric System or other similar contractual arrangements, the effect of which is that the District continues to retain the Revenues therefrom, shall not constitute a lease or disposition of such part of the Electric System for purposes of paragraph 3 of Section 7.07 and any proceeds therefrom shall be treated as Revenues.]**

7.11 Rates and Fees. 1. The District shall charge and collect rates, fees and other charges for the sale of electric power and energy and other services, facilities and commodities of the Electric System as shall be required to provide revenues and income (including investment income) at least sufficient in each Fiscal Year for the payment of the sum of:

(a) Operating Expenses during such Fiscal Year, including reserves, if any, therefor provided for in the Annual Budget for such year;

(b) An amount equal to the Aggregate Debt Service for such Fiscal Year;

(c) The amount, if any, to be paid during such Fiscal Year into the Debt Reserve Account in the Debt Service Fund; **[and]** ~~{(d) An amount equal to the Prior Lien Debt Service for such Fiscal Year;}~~

~~{(f)}~~ **[(d)]** All other charges or liens whatsoever payable out of revenues and income during such Fiscal Year and, to the extent not otherwise provided for, all amounts payable on Subordinated Indebtedness.

~~{The collection of revenues and income (including investment income) in any Fiscal Year in an amount in excess of the aggregate payments specified in this subsection 1 for such Fiscal Year shall not be taken into account as a credit against such aggregate payments for any subsequent Fiscal Year or years.~~

~~{2. On or before April 1 in each year the District shall complete a review of its financial condition for the purpose of estimating whether the revenues and income (including investment income) from the operation of the Electric System will be sufficient to provide all of the payments and meet all other requirements as specified in subsection 1 of this Section and shall by resolution make a determination with respect thereto. If the District determines that such revenues and income may not be sufficient to provide such payments and meet such other requirements, it shall forthwith make a study for the purpose of making a schedule of rates, fees and charges for the Electric System which will cause sufficient revenues and income to be collected in the following Fiscal Year to provide funds for all the payments and other requirements as specified in subsection 1 of this Section for such following year and will cause additional revenues and income to be collected in such following and later Fiscal Year sufficient to restore the amount of such deficiency at the earliest practicable time.}~~

[2.] If, in any Fiscal Year, the revenues and income collected shall not have been sufficient to provide all of the payments and meet all other requirements as specified in said subsection 1, the District shall as promptly as permitted by law establish and place in effect a schedule of rates, fees and charges which will cause sufficient revenues and income to be collected. **[For purposes of this Section 7.11, at any time, revenues and income collected shall include any amounts withdrawn or expected to be withdrawn thereafter in any Fiscal Year from the Rate Stabilization Fund which were on deposit therein prior to such Fiscal Year.]**

3. The District will not furnish or supply power or energy free of charge to any person, firm or corporation, public or private, and the District ~~{will}~~ **[shall]** promptly enforce the payment of any and all accounts owing to the District by reason of the ownership and operation of the Electric System, to the extent dictated by sound business practice.

4. The failure in any Fiscal Year to comply with the covenant in subsection 1 of this Section shall not constitute an Event of Default under the Resolution, if the District shall comply with subsection 2 of this Section.

7.12 Maintenance of Insurance. The District shall provide protection for the Electric System in accordance with sound electric utility practice which may consist of insurance, self insurance and indemnities. Any insurance shall be in the form of policies or contracts for insurance with insurers of good standing, shall be payable to the District as its interest may appear, and may provide for such deductibles, exclusions, limitations, restrictions and restrictive endorsements customary in policies for similar coverage issued to entities operating properties similar to the properties of the Electric System. Any self insurance shall be in the amounts, manner and of the types provided by entities operating properties similar to the properties of the Electric System.

7.13 Reconstruction; Application of Insurance Proceeds. 1. If any useful portion of the Electric System shall be damaged or destroyed, the District shall, as expeditiously as possible, continuously and diligently prosecute the reconstruction or replacement thereof, unless the District determines that such reconstruction and replacement is not in the interest of the District and the Bondholders. The proceeds of any insurance shall be ~~{applied in accordance with any applicable provisions of the Prior Lien Bond Resolutions and thereafter shall be}~~ paid on account of such damage or destruction, other than business interruption loss insurance, shall be held by the District in the Construction Fund and made available for, and to the extent necessary be applied to, the cost of such reconstruction or replacement, or shall be applied to the construction or acquisition of any properties or assets of the Electric System. Pending such application, such proceeds may be invested by the District in Investment Securities which mature not later than

such times as shall be necessary to provide moneys when needed to pay such cost of reconstruction or replacement or acquisition. Interest earned on such investments shall be deposited in the Construction Fund. The proceeds of any such insurance not applied by the District to constructing or replacing damaged or destroyed property or in acquiring property or assets of the Electric System shall be paid to the Trustee for deposit in the Redemption Fund.

2. The proceeds of business interruption loss insurance, if any, shall be paid into the Revenue Fund.

7.14 Accounts and Reports. The District shall keep, in accordance with Accounting Practice, proper books of record and account of its transactions relating to the Electric System ~~+~~ **[and]** the Funds and ~~accounts~~ **[Accounts]** established by the Resolution ~~and the Funds, accounts and reserves under the Prior Lien Bond Resolutions~~, together with all contracts for the sale of power and energy and all other books and papers of the District, including insurance policies, relating to the Electric System and such Funds and accounts.

2. The Trustee shall advise the District promptly after the end of each month of its transactions during such month relating to the Funds and accounts held by it under the Resolution.

3. The District shall annually, within 180 days after the close of each Fiscal Year ~~+(the first such report to be filed with respect to the year 1973)+~~, file with the Trustee, and otherwise as provided by law, a copy of the annual report of the District and its agent, the Association, for such year, accompanied by an Accountant's Report. In addition, the District will file with the Trustee a statement, or statements, accompanied by an Accountant's Report of each Fund and account established under the Resolution ~~and the electric revenue fund, bond fund and debt service reserve fund established under the Prior Lien Bond Resolutions~~, summarizing the receipts therein and disbursements therefrom during such year and the amounts held therein at the end of each Fiscal Year. Such Accountant's Report on the statement summarizing the transactions in the Funds established under the Resolution shall state whether or not, to the knowledge of the signer, the District is in default with respect to any of the covenants, agreements or conditions as set forth in Section 8.01 of the Resolution, insofar as they pertain to accounting matters, and if so, the nature of such default.

4. The reports, statements and other documents required to be furnished to the Trustee pursuant to this Section 7.14 ~~of the Resolution~~ shall be available for the inspection of the Bondholders at the office of the Trustee and shall be mailed to each Bondholder who shall file a written request therefor with the District.

7.15 Payment of Taxes and Charges. The District ~~will~~ **[shall]** from time to time duly pay and discharge, or cause to be paid and discharged all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon the properties of the District or upon the rights, revenues, income, receipts, and other moneys, securities and funds of the District when the same shall become due (including all rights, moneys and other property transferred, assigned or pledged under the Resolution), and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the District shall in good faith contest by proper legal proceedings if the District shall in all such cases have set aside on its books reserves deemed adequate with respect thereto.

7.16 ~~Transfer of Funds. The District hereby orders the Treasurer of the District to order and the Treasurer shall so order, on the last day of every month that Bonds are Outstanding, the transfer of moneys remaining in the "Electric Revenue Fund" established, created and maintained pursuant to the Prior Lien Bond Resolutions in excess of the amount required to be retained in said "Electric Revenue Fund" to the General Fund of the District for immediate deposit in the Revenue Fund.~~ [Reserved.]

7.17 Transfer From General Fund. In the event there is a deficiency in the ~~{“Bond Fund” established by the Prior Lien Bond Resolutions or in the}~~ Debt Service Account established herein and if such a deficiency is not paid from other sources the District hereby covenants to transfer money in the General Fund to said ~~{“Bond Fund” or said}~~ Debt Service Account ~~{or both in amounts}~~ **[an amount]** sufficient to make up such deficiency ~~{or deficiencies}~~ **[.]**

~~{7.18 Covenant By the District With Respect to the Prior Lien Bond Resolutions. The District shall not make any payments from the “Electric Revenue Fund” established under the Prior Lien Bond Resolutions, other than payments to the General Fund for deposit in the Revenue Fund, except for those payments and deposits required to be made pursuant to the Prior Lien Bond Resolutions.}~~

[7.18 Reserved.]

ARTICLE VIII

REMEDIES OF BONDHOLDERS

8.01 Events of Default. If one or more of the following events (in the Resolution called “Events of Default”) shall happen, that is to say:

(i) if default shall be made in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise,

(ii) if default shall be made in the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment therefor (except when such Installment is due on the maturity date of such Bond), when and as such interest installment or Sinking Fund Installment shall become due and payable, and such default shall continue for a period of 30 days,

(iii) if default shall be made by the District in the performance or observance of the covenants, agreements and conditions on its part as provided in Section 7.11,

(iv) if default shall be made by the District in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution or in the Bonds contained, and such default shall continue for a period of 60 days after written notice thereof to the District by the Trustee or to the District and to the Trustee by the Holders of not less than ~~{10%}~~ **[a majority]** in principal amount of the Bonds Outstanding, ~~{or}~~ **[provided that if such default shall be such that it cannot be corrected within such sixty day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected, or]**

~~{(v) if the District shall file a petition seeking a composition of indebtedness}~~

[(v) if (1) a decree or order for relief is entered by a court having jurisdiction of the District adjudging the District a bankrupt or insolvent or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition in respect of the District in any involuntary case] under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State of Arizona; (2) a receiver, liquidator, assignee, custodian, trustee, sequestor or other similar official of the District or of any substantial portion of its property is appointed; or (3) the winding up or liquidation of its affairs is ordered and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days,]

then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, either the Trustee (by notice in writing to the District), or the Holders of not less than 25% in principal amount of the Bonds Outstanding (by notice in writing to the District and the Trustee), may declare the principal of all the Bonds then Outstanding and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% in principal amount of the Bonds to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law, and the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums then payable by the District under the Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the District or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Holders of a majority in principal amount of the Bonds Outstanding, by written notice to the District and to the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of a majority in principal amount of the Bonds then Outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

8.02 Accounting and Examination of Records After Default. 1. The District covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the District and all other records relating to the Electric System shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys, including the engineer or firm of engineers appointed pursuant to Section [8.03].

2. The District covenants that if an Event of Default shall happen and shall not have been remedied, the District, upon demand of the Trustee, will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Resolution for such period as shall be stated in such demand.

8.03 Application of Revenues and other Moneys After Default. 1. The District covenants that if an Event of Default shall happen and shall not have been remedied, the District, upon demand of the Trustee, shall pay over to the Trustee (i) forthwith, all moneys, securities and funds then held by the District in any Fund or Account under the Resolution, and (ii) all Revenues as promptly as practicable after receipt thereof.

2. During the continuance of an Event of Default, the Trustee shall apply such moneys, securities, funds and Revenues and the income therefrom as follows and in the following order:

(i) to the payment of the amounts required for reasonable and necessary Operating Expenses, and for reasonable renewals, repairs and replacements of the Electric System necessary to prevent loss of Revenues, as certified to the Trustee by an independent engineer or firm of engineers of recognized standing (who may be an engineer or firm of

engineers retained by the District for other purposes) selected by the Trustee, ~~provided that, prior to the Retirement Date of the Prior Lien Bonds, such payments shall be made only to the extent not made or provided for under the Prior Lien Bond Resolutions.~~ For this purpose the books of record and accounts of the District relating to the Electric System shall at all times be subject to the inspection of such engineer or firm of engineers during the continuance of such Event of Default;

(ii) to the payment of the reasonable and proper charges, expenses and liabilities of the Trustee and of any engineer or firm of engineers selected by the Trustee pursuant to this Article;

(iii) to the payment of the interest and principal or Redemption Price then due on the Bonds, subject to the provisions of Section 7.02, as follows:

(a) unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) if the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bonds over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

3. If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the District under the Resolution, including the principal and Redemption Price of and accrued unpaid interest on all ~~bonds~~ **[Bonds]** which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the District, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Resolution or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the District all moneys, securities, funds and Revenues then remaining unexpended in the hands of the Trustee (except moneys, securities, funds or Revenues deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Trustee), and thereupon the District and the Trustee shall be restored, respectively, to their former positions and rights under the Resolution, and all Revenues shall thereafter be applied as provided in Article V. No such payment over to the District by the Trustee or resumption of the application of Revenues as provided in Article V

shall extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

8.04 Proceedings Brought by Trustee. 1. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Holders of not less than ~~{25%}~~ **[a majority]** in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its right and the rights of the Holders of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the District as if the District were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

2. All rights of action under the Resolution may be enforced by the Trustee without the possession of any of the Bonds ~~{coupons or}~~ or the production thereof on the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its name.

3. The Holders of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Bondholders not parties to such direction.

4. Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Resolution, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Resolution and provided to be exercised by the Trustee upon the occurrence of an Event of Default.

5. Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Holders of a majority in principal amount of the Bonds then Outstanding, and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Resolution by any acts which may be unlawful or in violation of the Resolution, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interest and the interest of the Bondholders.

8.05 Restriction on Bondholder's Action. 1. No Holder of any Bond ~~{or coupon}~~ shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such Holder shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the Holders of ~~{at least 25%}~~ **[not less than a majority]** in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Resolution or by the Act or by the laws of Arizona or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of Bonds ~~{or}~~

coupons} shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Resolution, or to enforce any right under the Resolution, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Resolution shall be instituted, had and maintained in the manner provided in the Resolution and for the equal benefit of all Holders of the Outstanding Bonds ~~and coupons~~, subject only to the provisions of Section 7.02.

2. Nothing in the Resolution or in the Bonds ~~for in the coupons~~ contained shall affect or impair the obligation of the District, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Holders thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Holder to enforce such payment of his Bond.

8.06 Remedies Not Exclusive. No remedy by the terms of the Resolution conferred upon or reserved to the Trustee or the Bondholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Resolution or existing at law or equity or by statute on or after the date of adoption of this Resolution.

8.07 Effect of Waiver and Other Circumstances. 1. No delay or omission of the Trustee or of any Bondholder to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such default or be an acquiescence therein; and every power and remedy given by this Article to the Trustee or to the Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders.

2. Prior to the declaration of maturity of the Bonds as provided in Section 8.01, the Holders of not less than ~~66 2/3%~~ **[25%]** in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the Holders of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium (if any) on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

8.08 Notice of Default. The Trustee shall promptly mail to registered Holders of Bonds, and to all Bondholders who shall have filed their names and addresses with the Trustee for such purpose written notice of the occurrence of any Event of Default. If for any Fiscal Year the Revenues shall be insufficient to comply with the provisions of subsection 1 of Section 7.11, the Trustee, on or before the 30th day after receipt of the annual audit, shall mail to such registered Holders and such Bondholders written notice of such failure.

ARTICLE IX

CONCERNING THE FIDUCIARIES

9.01 Trustee; Appointment and Acceptance of Duties. The Trustee shall be appointed by resolution of the District prior to the issuance of any Bonds authorized hereunder. The Trustee shall signify its acceptance of the duties and obligations imposed upon it by the Resolution by written acceptance filed with the District prior to the issuance of any Bonds authorized hereunder and by filing such written acceptance the Trustee shall be deemed to have accepted such duties and obligations with respect to all the Bonds to be issued, but only, however, upon the terms and conditions set forth in the Resolution.

9.02 Paying Agents; Appointment and Acceptance of Duties. 1. The District shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 9.12 for a successor Paying Agent. The Trustee may be appointed a Paying Agent.

2. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by the Resolution by executing and delivering to the District and to the Trustee a written acceptance thereof.

3. Unless otherwise provided, the principal offices of the Paying Agents are designated as the offices or agencies of the District for the payment of the interest on and principal or Redemption of the Bonds.

9.03 Responsibilities of Fiduciaries. 1. The recitals of fact herein and in the Bonds contained shall be taken as the statements of the District and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of the Resolution or of any Bonds ~~for coupons~~ issued thereunder or as to the security afforded by the Resolution, and no Fiduciary shall incur any liability in respect thereof. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to the District or to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. Subject to the provisions of subsection 2 of this Section 9.03, no Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence, misconduct or default.

2. The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Resolution. In case an Event of Default has occurred (which has not been cured) the Trustee shall exercise such of the rights and powers vested in it by the Resolution, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. Any provision of the Resolution relating to action taken or to be taken by the Trustee or to evidence upon which the Trustee may rely shall be subject to the provisions of this Section 9.03.

9.04 Evidence on Which Fiduciaries May Act. 1. Each Fiduciary, upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Resolution, shall examine such instrument to determine whether it conforms to the requirements of the Resolution and shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of counsel to the District, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Resolution in good faith and in accordance therewith.

2. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized Officer of the District, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of the Resolution upon the faith thereof; but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require further or additional evidence as to it as may seem reasonable.

3. Except as otherwise expressly provided in the Resolution, any request, order, notice, or other direction required or permitted to be furnished pursuant to any provision thereof by the District to any Fiduciary shall be sufficiently executed if executed in the name of the District by an Authorized Officer of the District.

9.05 Compensation. The District shall pay to each Fiduciary from time to time reasonable compensation for services rendered under the Resolution, and also reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of their powers and duties under the Resolution in accordance with agreements made from time to time by and between the District and the Trustee. Subject to the provisions of Section 9.03, the District further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence, misconduct or default.

9.06 Certain Permitted Acts. Any Fiduciary may become the owner of any Bonds ~~and coupons~~, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Resolution, whether or not any such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

9.07 Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by the Resolution by giving not less than 60 days' written notice to the District, and publishing notice thereof, specifying the date when such resignation shall take effect, once in each week for two successive calendar weeks in the Authorized Newspapers, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the District or the Bondholders as provided in Section 9.09, in which event such resignation shall take effect immediately on the appointment of such successor.

9.08 Removal of Trustee. The Trustee shall be removed by the District if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the District, and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the District. The District may remove the Trustee at any time, except during the existence of an ~~event~~ **[Event]** of ~~default~~ **[Default]** as defined in Section 8.01 hereof, for such cause as shall be determined in the sole discretion of the District by filing with the Trustee an instrument signed by an Authorized Officer of the District.

9.09 Appointment of Successor Trustee. 1. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the District, and if the District does not appoint a successor within 30 days then by the Holders of a ~~Majority~~ **[majority]** in principal amount of the Bonds then outstanding, excluding any Bonds held by or for the account of the District, by an instrument or concurrent instruments in writing signed and acknowledged by such Bondholders or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the District and the predecessor Trustee. The District shall publish notice of any such appointment made by it or the Bondholders once in each week for two successive calendar weeks, in the Authorized Newspapers, the first publication to be made within 20 days after such appointment.

2. If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within 60 days after the Trustee shall have given to the District written notice as provided in Section 9.07 or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

3. Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a bank or trust company or national banking association, and having capital stocks and surplus aggregating at least ~~(\$25,000,000)~~ **[\$100,000,000]**, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Resolution.

9.10 Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under the Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to the District, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the written request of the District, or of the successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under the Resolution; and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trust and conditions herein set forth. Should any deed, conveyance or instrument in writing from the District be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the District. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

9.11 Merger or Consolidation. Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, and shall be authorized by law to perform all the duties imposed upon it by the Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act.

9.12 Resignation or Removal of Paying Agent and Appointment of Successor. 1. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least 60 days' written notice to the District, the Trustee, and the other Paying Agents. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by the District. Any successor Paying Agent shall be appointed by the District and shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolution.

2. In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there be no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

ARTICLE X

SUPPLEMENTAL RESOLUTIONS

10.01 Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the District may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the District, shall be fully effective in accordance with its terms:

(1) To close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the delivery of Bonds or the issuance of other evidences of indebtedness;

(2) To add to the covenants and agreements of the District in the Resolution, other covenants and agreements to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(3) To add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(4) To authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in Section 2.02, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first delivery of such Bonds;

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolution, of the Revenues or of any other moneys, securities or funds;

(6) To modify any of the provisions of the Resolution in any respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof;

(7) [To modify any of the provisions of the Resolution to permit compliance with any amendment to the Internal Revenue Code of 1986, as amended, or any successor thereto, as the same may be in effect from time to time, if, in the Opinion of Bond Counsel, failure to so modify the Resolution either would adversely affect the ability of the District to issue Bonds the interest on which is excludable from gross income for purposes of federal income taxation, or is necessary or advisable to preserve such exclusion with respect to any Outstanding Bonds;

(8) To comply with such regulations and procedures as are from time to time in effect relating to establishing and maintaining a book-entry-only system;

(9) To provide for the issuance of Bonds in coupon form payable to bearer;

(10) To comply with the requirements of any nationally recognized rating agency in order to maintain or improve a rating on the Bonds by such rating agency;

(11)] To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; or

~~[(8)]~~

[(12)] To insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect.

10.02 Supplemental Resolutions Effective With Consent of Trustees. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article XI, which Supplemental Resolution, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the District and upon compliance with the provisions of said Article XI, shall become fully effective in accordance with its terms as provided in said Article XI.

10.03 General Provisions. 1. The Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article X and Article XI. Nothing in this Article X or Article XI contained shall affect or limit the right or obligation of the District to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.04 or the right or obligation of the District to execute and deliver to any Fiduciary any instrument which elsewhere in the Resolution it is provided shall be delivered to said Fiduciary.

2. Any Supplemental Resolution referred to and permitted or authorized by Section ~~{1001}~~ **[10.01]** may be adopted by the District without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution when filed with the Trustee shall be accompanied by a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the District and enforceable in accordance with its terms.

3. The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Sections 10.01 or 10.02 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of the Resolution.

4. No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE XI

AMENDMENTS

11.01 Mailing and Publication. 1. Any provision in this Article for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid only (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of the District or the Trustee, **[and]** (ii) ~~{to each Holder of any Bond payable to~~

bearer who shall have filed with the Trustee within two years preceding such mailing an address for notices, and (iii)} to the Trustee.

2. Any provision in this Article for publication of a notice or other matter shall require the publication thereof only in the Authorized Newspapers.

11.02 Powers of Amendment. Any modification or amendment of the Resolution and of the rights and obligations of the District and of the Holders of the Bonds ~~{and coupons}~~ thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in Section 11.03(i) of the Holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then Outstanding or less than all the Bonds of a Series then Outstanding are affected by the modification or amendment, of the Holders of at least two-thirds in principal amount of the Bonds so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of Holders of at least two-thirds in principal amount of the Bonds entitled to such Sinking Fund Installment and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purpose of this Section, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series.

11.03 Consent of Bondholders. The District may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 11.02, to take effect when and as provided in this Section. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by Trustee, together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee), shall be mailed by the District to Bondholders and shall be published in the Authorized Newspapers at least once a week for two successive weeks (but failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in this Section provided). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consents of Holders of the percentages of Outstanding Bonds specified in Section 11.02 and (b) a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the District in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the District and enforceable in accordance with its terms, and (ii) a notice shall have been published as hereinafter in this Section 11.03 provided. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 12.02. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and such proof is sufficient in accordance with Section 12.02 shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Holder of the Bonds giving such consent and, anything in Section 12.02 to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in

exchange therefor (whether or not such subsequent Holder thereof has notice thereof) unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this Section 11.03 provided for is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 12.02. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the District and the Trustee a written statement that the Holders of such required percentages of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Resolution (which may be referred to as Supplemental Resolution adopted by the District on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this Section 11.03, may be given to Bondholders by the District by mailing such notice to Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section 11.03 provided) and by publishing the same in the Authorized Newspapers at least once not more than 90 days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed. The District shall file with the Trustee proof of the publication of such notice and, if the same shall have been mailed to Bondholders, of the mailing thereof. A record, consisting of the papers required or permitted by this Section 11.03 to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the District, the Fiduciaries and the Holders of all Bonds ~~and coupons~~ at the expiration of 40 days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such 40 day period; provided, however, that any Fiduciary and the District during such 40 day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

11.04 Modifications by Unanimous Consent. The terms and provisions of the Resolution and the rights and obligations of the District and of the Holders of the Bonds ~~and coupons~~ thereunder may be modified or amended in any respect upon the adoption and filing by the District of a Supplemental Resolution and the consent of the Holders of all the Bonds then Outstanding, such consent to be given as provided in Section 11.03 except that no notice to Bondholders either by mailing or publication shall be required: provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders.

11.05 Exclusion of Bonds. Bonds owned or held by or for the account of the District shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article XI, and the District shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, the District shall furnish the Trustee a certificate of an Authorized Officer of the District, upon which the Trustee may rely, describing all Bonds so to be excluded.

11.06 Notation on Bonds. Bonds delivered after the effective date of any action taken as in Article X or this Article XI provided may, and, if the Trustee so determines, shall bear a notation by endorsement or otherwise in form approved by the District and the Trustee as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and presentation of his Bond for the purpose at the principal corporate trust office of the Trustee or upon any transfer or any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer by the Trustee as to any such action. If the District shall so determine, new Bonds so modified as in the opinion of the District to conform to such action shall be prepared and delivered, and upon demand of the Holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same Series and maturity then Outstanding, upon surrender of such Bonds. ~~with all unpaid coupons, if any, appertaining thereto.~~

ARTICLE XII

MISCELLANEOUS

12.01 Defeasance. 1. If the District shall pay or cause to be paid or there shall otherwise be paid, to the Holders of any Bonds ~~and coupons~~ the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then the pledge of any Revenues, and other moneys and securities pledged under the Resolution and all covenants, agreements and other obligations of the District to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the District to be prepared and filed with the District and, upon the request of the District, shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the District all moneys or securities held by them pursuant to the Resolution which are not required for the payment of principal or Redemption Price, if applicable, on Bonds or payment of ~~coupons not theretofore surrendered for such payment or redemption~~ [interest]. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Outstanding Bonds of a particular Series ~~and the coupons appertaining thereto~~ the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution, and all covenants, agreements and obligations of the District to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

2. Bonds or ~~coupons~~ [the principal] or interest installments [or Redemption Price] for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Paying Agents (through deposit by the District of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in subsection 1 of this Section. Any Outstanding Bonds of any Series ~~and all coupons appertaining to such Bonds~~ shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in subsection 1 of this Section if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the District shall have given to the Trustee in form satisfactory to it irrevocable instructions to publish as provided in Article IV notice of redemption of such Bonds on said date, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or ~~investment~~ [Defeasance] Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date

thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the District shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in the Authorized Newspapers a notice to the owners of such Bonds ~~and coupons~~ that the deposit required by (b) above has been made with the Trustee and that said Bonds ~~and coupons~~ are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are available for the payment of the principal or Redemption Price, if applicable, on said Bonds. Neither ~~Investment~~ **[Defeasance]** Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such ~~Investment~~ **[Defeasance]** Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such ~~Investment~~ **[Defeasance]** Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in ~~Investment~~ **[Defeasance]** Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the District, as received by the Trustee, free and clear of any trust, lien or pledge. ~~For the purposes of this Section, Investment Securities shall mean and include only non-callable securities which are direct obligations of, or obligations guaranteed by, the United States of America.~~

3. Anything in the Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds ~~or coupons~~ which remain unclaimed for ~~six~~ **[five]** years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for ~~six~~ **[five]** years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the District, be repaid by the Fiduciary to the District, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the District for the payment of such Bonds ~~and coupons~~; provided, however, that before being required to make any such payment to the District, the Fiduciary shall, at the expense of the District, cause to be published at least twice, at an interval of not less than seven days between publications, in the Authorized Newspapers, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the District.

12.02 Evidence of Signatures of Bondholders and Ownership of Bonds. 1. Any request, consent, revocation of consent or other instrument which the Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds ~~or coupons appertaining thereto,~~ shall be sufficient for any purpose of the Resolution (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

(1) The fact and date of the execution by any Bondholder or his attorney of such instruments may be proved by a guarantee of the signature thereon by an eligible guarantor institution or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the person signing such request or other instrument

acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature guarantee, certificate or affidavit shall also constitute sufficient proof of his authority.

(2) The amount of Bonds transferable by delivery held by any person executing any instrument as a Bondholder, the date of his holding such Bonds, and the numbers and other identification thereof, may be proved by a certificate, which need not be acknowledged or verified, in form satisfactory to the Trustee, executed by the Trustee or by a member of a financial firm or by an officer of a bank, trust company, insurance company, or financial corporation or other depository wherever situated, showing at the date therein mentioned that such person exhibited to such member or officer or had on deposit with such depository the Bonds described in such certificate. Such certificate may be given by a member of a financial firm or by an officer of any bank, trust company, insurance company or financial corporation or depository with respect to Bonds owned by it, if acceptable to the Trustee. In addition to the foregoing provisions, the Trustee may from time to time make such reasonable regulations as it may deem advisable permitting other proof of holding of Bonds transferable by delivery.

2. The ownership of Bonds ~~{registered otherwise than to bearer}~~ and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

3. Any request or consent by the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the District or any Fiduciary in accordance therewith.

12.03 Prior Obligations Not Affected. Nothing contained in the Resolution shall be construed as impairing or destroying the obligation of the District in connection with any franchise, contract, agreement, lease or other arrangement entered into by the District in connection with the operation of the properties of the District prior to the adoption of the Resolution, or to release any person, firm or corporations, public or private, from any debt or other obligation to the District pursuant to any such franchise, contract, agreement, lease or other arrangement.

12.04 Change of Corporate Name. Nothing herein contained shall prevent the District from changing its corporate name from time to time as provided by law, and the District expressly reserves the right to effect such change as may be determined by its Board of Directors.

12.05 Moneys Held for Particular Bonds ~~{and Coupons}~~. The amounts held by any Fiduciary for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds ~~{or coupons}~~ shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds ~~{and coupons}~~ entitled thereto.

12.06 Preservation and Inspection of Documents. All documents received by any Fiduciary under the provisions of the Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the District, any other Fiduciary, and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

12.07 Parties Interested Herein. Nothing in the Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or corporation, other than the District, the Fiduciaries and the Holders of the Bonds ~~{and the coupons thereunto appertaining}~~, any right, remedy or claim under or by reason of the Resolution or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in

the Resolution contained by and on behalf of the District shall be for the sole and exclusive benefit of the District, the Fiduciaries, and the Holders of the Bonds ~~{and the coupons thereunto appertaining}~~.

12.08 No Recourse on the Bonds. No recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on the Resolution against any member or officer of the District or any person executing the Bonds.

12.09 Publication of Notice; Suspension of Publication. Any publication to be made under the provisions of the Resolution in successive weeks or on successive dates may be made in each instance upon any business day of the week and need not be made in the same Authorized Newspapers for any or all of the successive publications but may be made in different Authorized Newspapers.

2. If, because of the temporary or permanent suspension of the publication or general circulation of any of the Authorized Newspapers or for any other reason, it is impossible or impractical to publish any notice pursuant to the Resolution in the manner herein provided, then such publication in lieu thereof as shall be made with the approval of the Trustee shall constitute a sufficient publication of such notice.

12.10 ~~{Priority of Prior Lien Bonds. So long as Prior Lien Bonds are outstanding, the rights herein granted to the Holders of the Bonds Outstanding hereunder shall be subject to the rights of the holders of the outstanding Prior Lien Bonds.}~~ [Reserved.]

12.11 Severability of Invalid Provisions. If any one or more of the covenants or agreements provided in the Resolution on the part of the District or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of the Resolution[, **so long as the Resolution as so modified continues to express, without material change, the original intentions of the District or any Fiduciary as to the subject matter of the Resolution and the deletion of such portion of the Resolution will not substantially impair the respective benefits or expectations of the District or any Fiduciary.**]

~~{12.12 Immediate Effect}~~ **[12.12 Effective Date]**. This Resolution shall take effect ~~{immediately}~~ **[in accordance with the provisions of Section 11.03 hereof; provided, however, that any modification or amendment affecting the form, ownership, transfer, registration, exchange, cancellation, redemption or payment of any coupon Bond shall not take effect with respect to such coupon Bond so long as any coupon Bonds remain Outstanding.]**

APPENDIX D — Form of Bond Counsel Opinion for the 2002 Series D Bonds

[Form of Bond Counsel Opinion]

November , 2002

Board of Directors
Salt River Project Agricultural
Improvement and Power District
Tempe, Arizona 85281

Ladies and Gentlemen:

We have examined the Constitution and statutes of the State of Arizona, certified copies of the proceedings of the Board of Directors of the Salt River Project Agricultural Improvement and Power District (the "District") and other proofs submitted to us relative to the issuance and sale by the District, a body politic and corporate and political subdivision of the State of Arizona, of

\$104,065,000
Salt River Project
Electric System Refunding Revenue Bonds,
2002 Series D

The 2002 Series D Bonds consist of bonds bearing interest at fixed rates. The 2002 Series D Bonds are dated as shown on the cover of the Official Statement (as defined herein), mature and bear interest at the times, in the manner and upon the terms provided therein and in the Resolutions (as hereinafter defined). The 2002 Series D Bonds are not subject to redemption prior to maturity.

We have also examined the form of said 2002 Series D Bonds.

We are of the opinion that such proceedings and proofs show lawful authority for the issuance and sale of the 2002 Series D Bonds pursuant to the Constitution and statutes of the State of Arizona, including particularly Article 7, Chapter 17, Title 48, Arizona Revised Statutes, and other applicable provisions of law, and pursuant and subject to the provisions, terms and conditions of a resolution, dated as of November 1, 1972, entitled "Resolution Concerning Revenue Bonds" as amended, and a resolution dated as of November 8, 2002, entitled "Resolution Authorizing The Issuance And Sale Of \$104,065,000 Salt River Project Electric System Revenue Bonds, 2002 Series D" (collectively, the "Resolutions"), all duly adopted by the District and that the 2002 Series D Bonds are valid and legally binding special obligations of the District. The District has adopted a Supplemental Resolution Amending and Restating the Resolution Concerning Revenue Bonds (the "Amended and Restated Resolution"), which contains certain amendments to the Resolution Concerning Revenue Bonds. The Amended and Restated Resolution will become effective in accordance with the Resolution Concerning Revenue Bonds only upon the District obtaining the written consent of the holders of two-thirds in principal amount of the bonds then outstanding under the Resolution Concerning Revenue Bonds. Upon becoming effective, all of the provisions of the Amended and Restated Resolution will be binding and controlling with respect to all outstanding bonds under the Resolutions, including the 2002 Series D Bonds.

We are further of the opinion that the District, in the Resolutions, has lawfully covenanted and is legally obligated to charge and collect, and revise from time to time whenever necessary, such fees and other charges for the sale of electric power and energy which will be sufficient in each year to pay the necessary expenses of operating and maintaining the District's electric system, the principal of and interest on the 2002 Series D Bonds and all other indebtedness maturing and becoming due in such year, and all reserve or other payments required by the

Resolutions in such year, subject to restrictions, if any, imposed by or on behalf of the United States of America, all in the manner provided in the Resolutions.

We are further of the opinion that the 2002 Series D Bonds and the outstanding Electric System Revenue Bonds heretofore issued pursuant to the Resolution Concerning Revenue Bonds as to principal or redemption price thereof and interest thereon are payable on a parity from and secured by a valid and equal pledge of the revenues of the District's electric system and other funds held or set aside under the Resolutions. Such pledge is subject and subordinate to the pledges and liens created by United States of America loan agreements hereafter entered into by the District, all in the manner provided in the Resolutions.

We are further of the opinion that the District may, within the terms, limitations and conditions contained in the Resolutions, issue pari passu additional Electric System Revenue Bonds payable from the revenues derived from the District's electric system, ranking equally as to lien on and source and security for payment from the revenues derived from the District's electric system, with the 2002 Series D Bonds and any pari passu additional Electric System Revenue Bonds heretofore or hereafter issued, all in the manner provided in the Resolutions.

We are further of the opinion that the District has validly entered into further covenants and agreements with the holders of the 2002 Series D Bonds for the exact terms of which reference is made to the Resolutions.

The opinions set forth above are subject to the effect of, and restrictions and limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights.

This opinion letter is dated as of the date hereof, and we assume no obligation to update this opinion letter to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, or interpretations thereof, that may occur, or for any other reason.

Very truly yours,

[Form of Special Tax Counsel Opinion]

November , 2002

Board of Directors
Salt River Project Agricultural
Improvement and Power District
Tempe, Arizona 85281

**Salt River Project Agricultural Improvement and Power District
\$104,065,000 Electric System Refunding Revenue Bonds, 2002 Series D**

Ladies and Gentlemen:

We have reviewed the record of proceedings related to the issuance by the Salt River Project Agricultural Improvement and Power District (the "District") of its \$104,065,000 aggregate principal amount of Electric System Refunding Revenue Bonds, 2002 Series D (the "2002 Series D Bonds"), including a Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 (the "Tax Certificate"), the statutes of the State of Arizona, certified copies of the proceedings of the Board of Directors of the District, the Resolution Concerning Revenue Bonds, dated as of November 1, 1972 (the "Bond Resolution"), as amended, a Resolution Authorizing the Issuance and Sale of \$104,065,000 Salt River Project Electric System Refunding Revenue Bonds, 2002 Series D adopted by the District on November 8, 2002 (the "2002 D Series Resolution" and, collectively with the Bond Resolution, the "Resolution"), and such other matters of fact and law as we have deemed necessary to enable us to render the opinions contained herein. In rendering the opinions set forth below, we have relied upon the approving opinion of McCarter & English, LLP, Bond Counsel, relating among other things to the validity of the 2002 Series D Bonds delivered on even date herewith.

The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements which must be met subsequent to the issuance and delivery of the 2002 Series D Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2002 Series D Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the 2002 Series D Bonds. The District has covenanted to comply with the provisions of the Code applicable to the 2002 Bonds and has covenanted not to take any action or permit any action that would cause the interest on the 2002 Series D Bonds to be included in gross income under Section 103 of the Code applicable to the 2002 Series D Bonds. In addition, the District has made certain certifications and representations in the Tax Certificate. We have not independently verified the accuracy of those certifications and representations.

Under existing law and assuming compliance with the tax covenants described herein, interest on the 2002 Series D Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the 2002 Series D Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

The 2002 Series D Bonds are being offered at prices in excess of their principal amounts. We are also of the opinion that an initial purchaser with an initial adjusted basis in a 2002 Series D Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for Federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each 2002 Series D Bond based on the purchaser's yield to maturity. For purposes of determining gain or loss on the sale or other disposition of a 2002 Series D Bond, an initial

purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such 2002 Series D Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such 2002 Series D Bonds.

We are also of the opinion that interest on the 2002 Series D Bonds is exempt from income taxes imposed by the State of Arizona.

Except as stated in the preceding four paragraphs, we express no opinion as to any other Federal or state tax consequences of the ownership or disposition of the 2002 Series D Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the 2002 Series D Bonds, or the interest thereon, if any action is taken with respect to the 2002 Series D Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

Very truly yours,

APPENDIX E — Form of Continuing Disclosure Agreement

CONTINUING DISCLOSURE AGREEMENT

Between

**SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT**

and

**THE BANK OF NEW YORK
as trustee**

\$104,065,000

Salt River Project Electric System Refunding Revenue Bonds, 2002 Series D Series

THIS CONTINUING DISCLOSURE AGREEMENT ("Agreement"), dated as of November 21, 2002, by and between the Salt River Project Agricultural Improvement and Power District (the "District"), an agricultural improvement district duly organized and existing under Article 7, Title 48, Chapter 17 of the laws of the State of Arizona, A.R.S. sections 48-2301, et seq. (the "Act") and The Bank of New York, New York, New York, as trustee (the "Trustee") for the \$104,065,000 Salt River Project Electric System Refunding Revenue Bonds, 2002 Series D to be issued by the District (the "2002 Series D Bonds");

WITNESSETH:

WHEREAS, the District intends to issue the 2002 Series D Bonds under and pursuant to (i) the Act and (ii) the District's Resolution Concerning Revenue Bonds, dated as of November 1, 1972, as amended, including that supplemental resolution dated as of October 17, 2002 (the "Resolution").

WHEREAS, on November 10, 1994 the Securities and Exchange Commission (the "Commission") adopted Release Number 34-34961 (the "Release") which amended Rule 15c2-12 ("Rule 15c2-12"), originally adopted by the Commission on June 28, 1989;

WHEREAS, Rule 15c2-12 requires that prior to acting as a broker, dealer or municipal securities dealer (the "Participating Underwriter") for the 2002 Series D Bonds, a Participating Underwriter must comply with the provisions of Rule 15c2-12;

WHEREAS, Rule 15c2-12 further provides, among other things, that a Participating Underwriter shall not purchase or sell the District's Bonds unless the Participating Underwriter has reasonably determined that the District and any "obligated person" (within the meaning of Rule 15c2-12, as amended) have undertaken, either individually or in combination with others, in a written agreement for the benefit of Bondholders, to provide certain information relating to the District, any "obligated person" and the 2002 Series D Bonds, to the Repositories described hereinbelow;

WHEREAS, this Agreement is being executed and delivered by the District and the Trustee for the benefit of the Bondholders, the Beneficial Owners of the 2002 Series D Bonds and the Trustee in order to comply with Rule 15c2-12 issued by the Commission;

WHEREAS, the District hereby agrees to provide the information described hereinbelow with respect to itself;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the District and the Trustee agree as follows:

Section 1. Definitions

"Annual Financial Information" shall mean the information specified in Section 3 hereof.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the 2002 Series D Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Bondholder" or "Holder" shall mean any registered owner of the 2002 Series D Bonds and any Beneficial Owner of Bonds who provides evidence satisfactory to the Trustee of such status.

"Independent Accountant" shall mean, with respect to the District, any firm of certified public accountants appointed by the District.

"Official Statement" shall mean the Official Statement of the District, dated November 8, 2002, relating to the issuance of the 2002 Series D Bonds.

"Repository" shall mean, at any time, each then existing nationally recognized municipal securities information repository, as recognized from time to time by the Commission for the purposes referred to in Rule 15c2-12. Repositories currently are identified on the Commission website at: <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Rule 15c2-12" shall mean Rule 15c2-12 under the Securities Exchange Act of 1934, as amended through the date of this Agreement.

"State" shall mean the State of Arizona.

"State Repository" shall mean any public or private repository or entity designated by the State as a state information depository for the purpose of Rule 15c2-12 and recognized as such by the Commission. As of the date of this Agreement, there is no State Repository.

Capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Resolution.

Section 2. *Obligation to Provide Continuing Disclosure*

The District hereby undertakes for the benefit of the Holders of the 2002 Series D Bonds to provide:

A. to each Repository and to the State Repository, if any, no later than 180 days after the end of each fiscal year, commencing with the fiscal year ending April 30, 2003:

1. the Annual Financial Information relating to such fiscal year together with audited financial statements of the District for such fiscal year if audited financial statements are then available; provided, however, that if audited financial statements of the District are not then available, the unaudited financial statements of the District shall be submitted with the Annual Financial Information and the audited financial statements shall be delivered to each Repository and to the State Repository, if any, when they become available (but in no event later than 350 days after the end of such fiscal year); or

2. notice to each Repository or to the Municipal Securities Rulemaking Board, and to the State Repository, if any, of the District's failure, if any, to provide any of the information described in Section A.1. hereinabove;

B. to each Repository or to the Municipal Securities Rulemaking Board, and to the State Repository, if any, in a timely manner, notice of any of the following events with respect to the 2002 Series D Bonds, if material:

1. any Event of Default resulting from principal and interest payment delinquencies on the 2002 Series D Bonds;

2. any non-payment related Event of Default;

3. unscheduled draws on the Debt Reserve Account under the Resolution reflecting financial difficulties;

4. unscheduled draws on credit enhancements, if any, reflecting financial difficulties under the Resolution;

5. substitution of credit or liquidity providers, if any, or their failure to perform;

6. adverse tax opinions or events affecting the tax-exempt status of the 2002 Series D Bonds;

7. amendment of or modifications to the rights of Bondholders;

8. giving of notice of redemption of 2002 Series D Bonds (which does not include regularly scheduled or mandatory sinking fund redemptions effectuated in accordance with the Resolution);

9. defeasance of the 2002 Series D Bonds;
10. release, substitution, or sale of property, if any, securing repayment of the 2002 Series D Bonds; and
11. rating changes on the 2002 Series D Bonds.

The Trustee shall notify the District upon the occurrence of any of the eleven events listed in this Section 2.B. promptly upon becoming aware of the occurrence of any such event. The Trustee shall not be deemed to have become aware of the occurrence of any such event unless an officer in its corporate trust department actually becomes aware of the occurrence of any such event.

Nothing in this Agreement shall prevent the District from disseminating any information in addition to that required hereunder. If the District disseminates any such additional information, nothing herein shall obligate the District to update such information or include it in any future materials disseminated.

Section 3. *Annual Financial Information*

Annual Financial Information shall include updated financial and operating information, in each case updated through the last day of the District's prior fiscal year unless otherwise noted, relating to the following information contained in the Official Statement:

(i) information as to any changes in the District's projected peak loads and resources in substantially the same level of detail as found in Table 2 under the heading "Projected Peak Loads and Resources";

(ii) an update of the information listing District power sources and participation interests in power generating facilities in substantially the same level of detail found in Table 3 and Table 4 under the heading "Existing and Future Resources";

(iii) information as to any changes or proposed changes in the electric prices charged by the District in substantially the same level of detail as found under the heading "Electric Prices";

(iv) an update of the information relating to customer base and classification, electric power sales, and the District's revenues and expenses in substantially the same level of detail found in Table 7 and Table 8 under the heading "Customers, Sales, Revenues and Expenses";

(v) (a) an update summarizing the contractual payment obligations of the District on behalf of other political subdivisions which obligations secure debt service on bonds other than bonds issued by the District in substantially the same level of detail as found under the heading "Customers, Sales, Revenues and Expenses — Contractual Obligations Relating to Bonds of Other Political Subdivisions" and (b) a statement of any default in the payment of such obligations;

(vi) (a) information as to the authorization or issuance by the District of any notes, other obligations, minibonds or parity indebtedness in substantially the same level of detail as found under the heading "Additional Financial Matters" and (b) a statement of any default under such notes, minibonds or parity indebtedness;

(vii) (a) information as to the outstanding balances and required debt service on any United States Government Loans and (b) a statement of any default with respect to such loans;

(viii) (a) an update summarizing the District's discussions of operations in substantially the same level of detail as found under the heading "Additional Financial Matters — Management's Discussion of Operations" or an annual report;

(ix) (a) an update of the balance in the Debt Reserve Account and (b) an update of all information relating to actual debt service requirements and coverages for outstanding revenue bonds and other prior and parity debt obligations in substantially the same level of detail as found in Table 10 and Table 11 under the heading "Additional Financial Matters — Outstanding Revenue Bond Indebtedness"; and

(x) such narrative explanation as may be necessary to avoid misunderstanding and to assist the reader in understanding the presentation of financial information and operating data concerning, and in judging the financial condition of, the District.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements pertaining to debt issued by the District, which have been submitted to each of the Repositories and the State Repository, if any, or the Commission. If the document incorporated by reference is a final Official Statement (within the meaning of Rule 15c2-12), it must also be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so incorporated by reference. It is sufficient for the purposes of Rule 15c2-12 and this Agreement that the Annual Financial Information to be provided pursuant to Section 2.A. and Section 3 hereof be submitted to each of the Repositories, the State Repository, if any, or the Commission no more than once annually.

The requirements contained in this Section 3 are intended to set forth a general description of the type of financial information and operating data to be provided; such descriptions are not intended to state more than general categories of financial information and operating data; and where the provisions of this Section 3 call for information that no longer can be generated or is no longer relevant because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided.

Section 4. *Financial Statements*

The District's annual financial statements for each fiscal year shall be prepared in accordance with generally accepted accounting principles in effect from time to time. Such financial statements shall be audited by an Independent Accountant. All or any portion of the District's audited or unaudited financial statements may be incorporated by specific reference to any other documents which have been filed with (i) the Repositories and the State Repository, if any, or (ii) the Commission; provided, however, that if the document is an official statement, it shall have been filed with the Municipal Securities Rulemaking Board and need not have been filed elsewhere.

Section 5. *Remedies*

If the District shall fail to comply with any provision of this Agreement, then the Trustee or any Holder may, but shall not be obligated to, enforce, for the equal benefit and protection of all Holders similarly situated, by mandamus or other suit or proceeding at law or in equity, this Agreement against the District and any of the officers, agents and employees of the District, and may compel the District or any such officers, agents or employees to perform and carry out their duties under this Agreement; provided, however, that the sole remedy hereunder shall be limited to an action to compel specific performance of the obligations of the District hereunder and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances; provided, further, that any challenge to the adequacy of any information provided pursuant to Section 2 shall be brought only by the Trustee or the Holders of 25% of the aggregate principal amount of the 2002 Series D Bonds then outstanding which are affected thereby. Failure to comply with any provision of this Agreement shall not constitute an Event of Default under the Resolution.

Section 6. *Parties in Interest*

This Agreement is executed and delivered for the sole benefit of the Holders, the Beneficial Owners and the Trustee. No other person shall have any right to enforce the provisions hereof or any other rights hereunder.

Section 7. *Termination*

This Agreement shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest on the 2002 Series D Bonds shall have been paid in full or legally defeased pursuant to the Resolution (a "Legal Defeasance"); *provided, however*, that if Rule 15c2-12 (or successor provision) shall be amended, modified or changed so that all or any part of the information currently required to be provided thereunder shall no longer be required to be provided thereunder, then this Agreement shall be amended to provide that such information shall no longer be required to be provided hereunder; and provided, further, that if and to the extent Rule 15c2-12 (or successor provision), or any provision thereof, shall be declared by a court of competent and final jurisdiction to be, in whole or in part, invalid, unconstitutional, null and void or otherwise inapplicable to the 2002 Series D Bonds, then the information required to be provided hereunder, insofar as it was required to be provided by a provision of Rule 15c2-12 so declared, shall no longer be required to be provided hereunder. Upon any Legal Defeasance, the District shall provide notice of such defeasance to each Repository, the State Repository and the Municipal Securities Rulemaking Board. Such notice shall state whether the 2002 Series D Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption. Upon any other termination pursuant to this Section 7, the District shall provide notice of such termination to each Repository or to the Municipal Securities Rulemaking Board, and to the State Repository, if any.

Section 8. *Amendment; Change; Modification*

Without the consent of any Holders (except to the extent expressly provided below), the District and the Trustee at any time and from time to time may enter into any amendments or changes to this Agreement for any of the following purposes:

- (i) to comply with or conform to Rule 15c2-12 or any amendments thereto or authoritative interpretations thereof by the Commission or its staff (whether required or optional) which are applicable to this Agreement;
- (ii) to add a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;
- (iii) to evidence the succession of another person to the District and the assumption by any such successor of the covenants of the District hereunder;
- (iv) to add to the covenants of the District for the benefit of the Holders, or to surrender any right or power herein conferred upon the District; or
- (v) for any other purpose as a result of a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the District, or type of business conducted; provided that (1) this Agreement, as amended, would have complied with the requirements of Rule 15c2-12 at the time of the offering of the 2002 Series D Bonds, after taking into account any amendments or authoritative interpretations of Rule 15c2-12, as well as any change in circumstances, (2) the amendment or change either (a) does not materially impair the interest of Holders, as determined by bond counsel or (b) is approved by the vote or consent of Holders of a majority in outstanding principal amount of the 2002 Series D Bonds affected thereby at or prior to the time of such amendment or change and (3) the Trustee receives an opinion of bond counsel that such amendment is authorized or permitted by this Agreement.

The Annual Financial Information for any fiscal year containing any amendment to the operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such amendment and the impact of the change on the type of operating data or financial information in the Annual Financial Information being provided for such fiscal year. If a change in accounting principles is included in any such amendment, such Annual Financial Information, respectively, shall present a comparison between the financial statements or information prepared on the basis of the amended accounting principles. Such comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. To the extent reasonably feasible such comparison shall also be quantitative. A notice of any such change in accounting principles shall be sent to each Repository or to the Municipal Securities Rulemaking Board, and to the State Repository, if any.

Section 9. *Duties of the Trustee*

A. The duties of the Trustee under this Agreement shall be limited to those expressly assigned to it hereunder. The District agrees to indemnify and save harmless the Trustee and its officers, directors, employees and agents, for, from and against any loss, expense and liabilities that it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Trustee's gross negligence or willful misconduct. The obligations of the District under this Section 9 shall survive resignation or removal of the Trustee, payment of the 2002 Series D Bonds or termination of this Agreement.

B. No earlier than one day, nor later than 30 days, following the end of each fiscal year of the District (ending April 30, unless the District notifies the Trustee otherwise) the Trustee will notify the District of its obligation to provide the Annual Financial Information in the time and manner described herein; provided, however, that any failure by the Trustee to notify the District under this Section 9.B shall not affect the District's obligation hereunder, and the Trustee shall not be responsible in any way for such failure.

C. The Trustee shall be under no obligation to report any information to any Repository, any State Repository, if any, the Municipal Securities Rulemaking Board or any Holder. If an officer of the Trustee obtains actual knowledge of an occurrence of an event described in Section 2.B.1. through 2.B.11 hereunder, whether or not such event is material, the Trustee will notify the District of such occurrence; provided, however, that any failure by the Trustee to notify the District under this Section 9.C. shall not affect the District's obligation hereunder, and the Trustee shall not be responsible in any way for such failure.

Section 10. *Governing Law*

THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE DETERMINED WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAW, AND THE LAWS OF THE UNITED STATES OF AMERICA, AS APPLICABLE. Any action for enforcement of this Agreement shall be taken in a state or federal court, as appropriate, located in Maricopa County, Arizona. To the fullest extent permitted by law, the District and the Trustee each hereby irrevocably waives any and all rights to a trial by jury, and covenants and agrees that it will not request a trial by jury, with respect to any legal proceeding arising out of or relating to this Agreement.

Section 11. *No Previous Non-Compliance*

The District represents that it has previously entered into written contracts or agreements of the type referenced in paragraph (b)(5)(i) of Rule 15c2-12 in relation to certain of its outstanding obligations, and is in compliance with such agreements.

Section 12. Counterparts

This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

**SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT**

By: _____
Name:
Title:

THE BANK OF NEW YORK
as Trustee

By: _____
Name:
Title:

APPENDIX F — Book-Entry Only System

General

Beneficial ownership interests in the 2002 Series D Bonds will be available in book-entry form only. Purchasers of beneficial ownership interests in the 2002 Series D Bonds will not receive certificates representing their interests in the 2002 Series D Bonds and will not be Bondholders or owners of the 2002 Series D Bonds under the Resolution.

DTC, an automated clearinghouse for securities transactions, will act as the Securities Depository for the 2002 Series D Bonds. The 2002 Series D Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2002 Series D Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, L.L.C., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the 2002 Series D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Series D Bonds on DTC's records. The ownership interest of each actual purchaser of each 2002 Series D Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2002 Series D Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2002 Series D Bonds, except in the event that use of the book-entry system for the 2002 Series D Bonds is discontinued.

To facilitate subsequent transfers, all 2002 Series D Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2002 Series D Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2002 Series D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2002 Series D Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2002 Series D Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2002 Series D Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2002 Series D Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2002 Series D Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor securities depository is not obtained, the 2002 Series D Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2002 Series D Bond certificates will be printed and delivered.

The information set forth above concerning DTC and DTC's book-entry system has been obtained from DTC and other sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Issuance of the 2002 Series D Bonds in book-entry form may reduce the liquidity of such bonds in the secondary trading market since investors may be unwilling to purchase bonds for which they cannot obtain physical certificates. In addition, since transactions in the 2002 Series D Bonds can be effected only through DTC, Direct Participants and Indirect Participants, the ability of a Beneficial Owner to pledge 2002 Series D Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of the 2002 Series D Bonds, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Trustee as registered owners for purposes of the Resolution, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and the Direct and Indirect Participants.

Same-Day Settlement and Payment

Settlement for the 2002 Series D Bonds will be made by the Underwriters in immediately available funds. All payment of principal and interest will be made by the Trustee on behalf of the District to DTC in immediately available funds.

Secondary trading in long-term principal obligations comparable to the 2002 Series D Bonds is generally settled in clearing-house or next-day funds. In contrast, the 2002 Series D Bonds will

trade in DTC's Same-Day Fund Settlement System so long as DTC is the Securities Depository. Secondary market trading activity in the 2002 Series D Bonds will settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on the trading activity in the 2002 Series D Bonds.

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APPENDIX G — The Refunded Bonds

Refunded Bonds 2002 Series D

Series	Maturity Date	Interest Rate	Par Amount Refunded	Call Date	Call Price	Original CUSIP	Portion of Maturity Refunded
Electric System Revenue Bonds, Series 1979B.....	1/1/2009	4.750%	1,670,000	1/1/2003	100	795747SP0	Full
Electric System Revenue Bonds, Series 1986C.....	1/1/2025	5.000%	16,095,000	1/1/2003	100	795747K86	Partial
Electric System Revenue Bonds, Series 1991A.....	1/1/2004	6.500%	115,000	1/1/2003	100	7957475K6	Full
	1/1/2005	6.500%	295,000	1/1/2003	100	7957475L4	Full
	1/1/2006	6.500%	315,000	1/1/2003	100	7957475M2	Full
	1/1/2007	6.500%	340,000	1/1/2003	100	7957475N0	Full
	1/1/2031	6.000%	11,260,000	1/1/2003	100	7957475R1	Full
Electric System Revenue Bonds, Series 1992C.....	1/1/2004	5.900%	65,000	1/1/2003	101	7957476M1	Full
	1/1/2005	6.000%	60,000	1/1/2003	101	7957476N9	Full
	1/1/2006	6.100%	80,000	1/1/2003	101	7957476P4	Full
	1/1/2007	6.200%	50,000	1/1/2003	101	7957476Q2	Full
	1/1/2012	6.200%	5,835,000	1/1/2003	101	7957476R0	Full
	1/1/2016	6.000%	4,790,000	1/1/2003	101	7957476S8	Full
	1/1/2019	6.250%	8,320,000	1/1/2003	101	7957476T6	Full
	1/1/2028	5.500%	11,545,000	1/1/2003	100	7957476U3	Full
Electric System Revenue Bonds, Series 1992D.....	1/1/2013	6.000%	8,060,000	1/1/2003	101	79575DAT7	Full
	1/1/2019	5.750%	14,895,000	1/1/2003	100	79575DAU4	Full
	1/1/2025	5.500%	16,850,000	1/1/2003	100	79575DAV2	Full
	1/1/2027	6.250%	3,490,000	1/1/2003	101	79575DKB5	Full
	1/1/2030	5.000%	9,205,000	1/1/2003	100	79575DAX8	Partial

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EXHIBIT O

Publication date: 14-Oct-2002
Reprinted from RatingsDirect

Salt River Project Agricultural Improvement & Power District, Arizona; Utility, Retail Electric

Credit Analyst: Kathryn Mock Masterson, San Francisco (1) 415-371-5009; David Bodek, New York (1) 212-438-7969

Credit Profile

\$102.7 mil muni debt muni
issue ser 2002 D due 2010
AA
Sale date: 08-NOV-2002

\$210.6 mil muni debt muni
issue ser 2002 C due 2015
AA
Sale date: 16-OCT-2002

AFFIRMED

\$2.623,271 bil. Salt River Agri
Imp & Pwr Dist elec sys rev
bnds
AA

OUTLOOK:
STABLE

Rationale

The 'AA' rating on Salt River Project Agricultural Improvement and Power District (SRP), Ariz.'s electric revenue refunding bonds reflects the following strengths:

- A senior lien on the gross revenues of the electric system;
- A strong financial position, although financial results will be lower than the very strong levels achieved in 2001 due to lower-than-anticipated wholesale revenues;
- An economically vibrant service territory with energy growth projected at 3.3% annually, which is slightly lower than SRP's historical growth rate, which averaged in excess of 4.0% since 1996;
- Sufficient and diverse generation resources—through both owned resources and purchased-power obligations—that serve all but peak load, and a fuel adjustment clause that was implemented in May 2002. These two factors together provide a high degree of cost certainty and revenue responsiveness;
- Competitive rates and a strong array of customer service programs that are designed to provide a high level of service to all customer classes and should assist SRP in the retention of customers in a competitive environment; and
- Long-range resource planning that should prepare the utility for the possible loss of the Mohave Generating Station in 2005 or the loss of full-requirements transmission rights on the El Paso gas pipeline, which could result in substantially higher gas transportation costs.

These strengths are tempered by weakened legal protections for bondholders under SRP's supplemental resolution. Salt River Project expects to have sufficient bondholder approval as a result of its recapitalization (debt restructuring) efforts to allow the new legal covenants to take effect in January 2003. Although the supplemental resolution diminishes traditional bondholder protections, the utility's strong operational and financial profile continues to far exceed the minimum rate covenant of 1.0 times (x), and cash reserves and strong cash flow at the utility are expected to compensate for the minimal debt service reserve fund—equal to six months, of interest. Due to favorable interest rates, SRP has achieved approximately \$60-\$65 million in present value debt service savings as a result of its ongoing recapitalization plan.

Outlook

The stable outlook reflects the expectation that costs will remain stable—given SRP's ownership of the majority of its generation needs and its gas hedging strategy—so that rates, which are subject to a rate cap until the competitive transmission charge is removed in June 2004, should be sufficient to cover expenses. The outlook also assumes that cost increases resulting from operational changes such as the loss of the Mohave plant, increased gas transportation costs, or higher-than-expected environmental compliance costs, would be quickly incorporated by the board into the rate structure in

order to recover costs. Significant declines in the financial performance of the utility, beyond those currently projected, could have an impact on credit quality.

Finances and Recapitalization Plan

The electric system will likely experience slightly lower financial margins than originally projected in 2000 and 2001, a result of lower-than-historical load growth and lower revenues from wholesale sales. These reduced financial margins are still reflective of the 'AA' category, with debt service coverage (DSC) projected to drop only to a low of 1.7x in 2005, which assumes that by 2004 SRP raises rates by a modest amount, cuts expenses, or employs a combination of a rate adjustment and cost cutting. In the absence of these measures, coverage would likely decline below the 1.7x level projected by SRP for 2005, which could have implications for credit quality. SRP continues to project a healthy dependence on wholesale revenues to support capital spending. A further reduction in wholesale sales from the current projected 16%-18% of total revenues could result in a further reduction in cash flow and DSC. Some discretionary operating expenses and capital projects have been delayed as SRP prepares for the possibility of lower revenues by conserving its cash.

Bond proceeds from the series 2002C and 2002D bonds will fund higher coupon outstanding debt. The refunding is part of SRP's recapitalization plan to restructure debt along business lines (generation, transmission, and distribution) and to have more than 66% of debt outstanding under the new indenture in order to operate under the new legal covenants, which will be achieved after this issuance. The 2002 bonds are on parity with approximately \$2.1 billion in outstanding revenue bonds. SRP also has mini-bonds shares outstanding that are on parity with revenue bonds. The mini-bonds are supported by a revolving credit agreement to mitigate remarketing exposure. The CP program is an unsecured obligation of the district's general fund and does not have a lien on revenues.

SRP is a vertically integrated electric utility that serves portions of the rapidly growing Phoenix-Mesa MSA. In addition to its electrical business, SRP provides wholesale raw water to the area, although these revenues are not pledged to bondholders. Recently, the region's growth has slowed, primarily due to decreased tourism, substantially lower sales in the entire high-tech manufacturing sector (several large industrial customers manufacture chips), and diminished activity at large mines. The Phoenix-Mesa MSA's unemployment rate, at 5.4% in June 2002, had increased from 3.7% in June 2001, yet remained lower than the state's 6.0% rate and the nation's 5.9% rate in June 2002. A slowing economy may result in diminished margins but will also allow for the postponement of the construction of additional capacity.

Fiscal 2002 ended April 30, 2002. Wholesale revenues remained a strong component of total revenues at 30%. Cash flow DSC of 3.09x was strong. DSC in fiscal 2001 hit an unusual peak of 4.72x as a result of the tremendous wholesale sales made in that year, but this was a level of coverage that was not expected to be sustained. Fixed-charge coverage in 2002 was 1.72x, including a small payment in lieu of taxes and fixed purchased power obligations. Total debt to total capitalization was adequate at 56.7%, although this is projected to decrease to 43.1% by fiscal 2008 with current plans to cash finance approximately 55% of SRP's \$3 billion capital plan over the next six years.

Liquidity is good with cash and investments of \$780 million at the end of fiscal 2002, or 185 days' cash. Approximately \$429 million was spent down in early August 2002 to cash defease debt, but bond proceeds from the 2002B bonds

were used to replenish cash reserves for projects already completed and for future capital expenditures. SRP does not have additional forms of liquidity, but the utility does have liquidity facilities in place to cover remarketing risk on the CP and mini-bonds. SRP currently has the maximum allowable amount of CP outstanding at \$525 million, leaving no borrowing capacity on this program, although the size of the CP program can be increased at any time with board approval.

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Salt River Agriculture Impr.& Power Dist., AZ

Contacts

Dan Aschenbach	212-553-0880
Edward Roche	212-553-3604
Aaron Freedman	212-553-4426

Moody's Rating

Issue	Rating
Refunding Revenue Bonds 2002 Series C & D	Aa2
Sale Amount	\$225,000,000
Expected Sale Date	10/16/02
Rating Description	Electric System Revenue Refunding Bonds, 2002 Series C&D

MOODY'S ASSIGNS Aa2 CREDIT RATING TO SRP's \$225 MILLION REFUNDING BONDS

RATING AFFIRMED ON \$2.5 BILLION IN OUTSTANDING PARITY DEBT

Opinion

Moody's has assigned the credit rating of Aa2 to Salt River Project's \$125 million Electric System Refunding Revenue Bonds, 2002 Series C and \$100 million Electric System Refunding Revenue Bonds, 2002 Series D, scheduled to price October 16. The current offering will refund outstanding debt for present value savings. Moody's has also affirmed the credit rating of Aa2 on SRP's outstanding \$2.5 billion revenue bonds and P-1 on SRP's \$525 million tax-exempt commercial paper. SRP's Aa2 credit rating rests on its record of strong financial performance and sound liquidity, competitive electric retail rates, diverse power mix, and effective management, including its strong strategic planning efforts. SRP's important role as the operator of a major federal water reclamation project and its reliable electric service to a major portion of the Phoenix-Mesa MSA are also key. Moody's believes that SRP, through a series of proactive management decisions, is well positioned to adapt to the changing and uncertain environment it must operate in as an electric utility. Favorable state legislative and regulatory treatment thus far regarding stranded cost recovery is also a positive factor.

Moody's reviewed the following factors in the assignment of the Aa2 credit rating:

**SRP'S PROACTIVE STRATEGIC RESPONSE TO COMPETITIVE FORCES
REPRESENTS AN EXAMPLE OF CORE CREDIT STRENGTH**

Management's continued proactive response to new competitive forces and the uncertain electric industry environment remains a core strength of SRP and is reflected in the credit rating of Aa2. As the restructuring of the electric industry continues, utility management

actions increasingly become more key in how much change impacts both the utility operations and finances. SRP has consistently taken proactive steps toward ensuring the competitiveness of the utility and in positioning SRP to face industry changes. For example, SRP met all the terms and conditions of Arizona's Electric Power Competition Act, which became law in 1998 and December 30, 2000, opened 100% of its service territory to competition seven months earlier than required by Arizona's legislation. Limited interest by customers in retail choice has been experienced in Arizona. SRP management's major focus has been to reduce average generation costs with operating and debt cost reductions. SRP's targeted average cost to serve retail customers is competitive within Arizona and the region. Retail rates that include the price charged for the electricity commodity and its delivery cost are very competitive against neighboring investor-owned utilities, particularly for the important residential class of customers. SRP has no dominant customers, with none representing more than 2.9% of operating revenues.

SRP SERVICE ROLE AND SERVICE AREA PROVIDES CONSIDERABLE CREDIT STRENGTH WHILE MANAGING LOAD GROWTH REMAINS CHALLENGING

The Salt River Project Agricultural Improvement and Power District was organized in 1937 and operates the Salt River Project, a federal reclamation project, under contracts with the Salt River Valley Water Users' Association. This role is an important one and strengthens SRP's position as an important public entity in Arizona. SRP provides partial support for water and irrigation operations in the district thereby keeping water storage, distribution and delivery charges at reasonable levels. The District owns and operates as its primary business an electric system which generates, transmits and distributes electric power and energy, providing electric service to residential, commercial, industrial and agricultural customers in a 2,900 square mile service territory in parts of Maricopa, Pinal and Gila counties. SRP services approximately 53% of the population in the Phoenix-Mesa MSA, which is the economic and population center for the state of Arizona. While there was some slowdown in the local economy over the past year, the economic expansion of the Phoenix metro area continues, which is reflected in both population and SRP service area customer growth.

SRP enjoys a strong reputation among its customers for competitive price and reliability. SRP has achieved a well-managed and diverse mix of power resources that contribute to its overall competitive cost structure. While the growth in the customer base (about 3.8% annually between 1996-2002) has strengthened operating revenues, meeting demand requirements remains a continuing challenge for SRP to insure it maintains adequate power resources and access to competitive and reliable power supplies. SRP's annual peak load in the district is projected to increase by about 20%, or 1,100 MW between 2003-2008. SRP management has targeted a planned reserve margin of 12% in each of the next five years to insure adequate and reliable power supplies are available. About one-third of SRP's \$3 billion 2003-2008 Capital Improvement Program is for funding the construction of electric generation.

The future power resource options in SRP's resource plan include: construction of a 250MW natural gas-fired power plant at the existing Kyrene Generating Station to be in service by 2003; proposed 825 MW expansion of the district's Santan Generating Station scheduled for operation in 2006; and joint development and or power purchase from the proposed coal-fired units at the Springerville Generating Station. Other options are also being evaluated as well. Both the Santan and Springerville projects remain under evaluation and the timetable remains flexible. A decision could be delayed given the slowdown in the area economy. The long-term role of Mohave Generating Station in SRP's power resource plans remains under continued evaluation and also factors into the importance of SRP's flexibility in its resource decisions.

SRP continues to be focused on maintaining a stable and diverse mix of competitive resources. A key risk in the deregulated wholesale energy market is the financial impact of a forced outage of a major generating resource. SRP management has numerous

strategies to mitigate this risk including limited dominance by any one generating resource or fuel type; maintaining its 12% reserve margin and its broad transmission access to energy markets; a preventative maintenance program on its generating units; establishment of a fuel and power purchase adjustment charge and maintenance of strong financial liquidity. SRP also has interruptible retail and wholesale loads. In addition, SRP's governing board has rate setting authority and flexibility to respond to any adverse circumstance.

WELL MANAGED AND STABLE FINANCIAL OPERATIONS WITH SOUND FINANCIAL PLAN FOR 2003-2008

SRP has been characterized by favorable financial operations. The historically stable financial operating results reflect, in part, the dominance of the residential component of SRP's energy sales and system revenue profile which lends stability to budget planning. SRP's sound financial policies reflected in its Six Year Financial Plan also represent a favorable aspect of credit position. SRP has established through a business planning process various core financial indicators which set financial performance parameters. SRP management takes these measurements seriously as critical benchmarks for future success as it meets the challenges of a restructured electricity market while meeting the energy production and service demands of the Phoenix area. Some of the key benchmarks include: funds for corporate purposes, which have averaged \$400 million for the past seven years; debt service coverage ratio which averaged 3.24 times between 1996-2001 and is projected to be in the two-times range between 2003-2008. SRP's debt ratio has fallen over the past decade and is expected to continue to decline through 2008. Moody's believes SRP's demonstrated focus on its financial plan gives a good insight into the future financial strengths the utility will exhibit.

STRONG 2002 FINANCIAL PERFORMANCE REMAINS A KEY CREDIT FACTOR

As expected, SRP's 2002 financial results (fiscal year ending April 30) were sound with debt service coverage at 3.09 times, a slight decline in its debt ratio, and a successful start of the recapitalization of its debt structure. SRP has already completed two refunding bond sales and a cash defeasance transaction within the last year and expects to finalize the Recapitalization Plan by January 2003. SRP's net revenues fell in 2002 primarily due to significantly lower wholesale revenues in contrast to the prior year when total revenues were inflated by the record high wholesale power prices in 2001. An adjustment was also made to account for the introduction of new FAS No. 133 Accounting for Derivative Instruments and Hedging Activities. SRP adopted, effective May 1, 2001, FAS No. 133, which requires derivative instruments to be recorded in financial statements.

Year-to-date FY 2003 financial results are sound with some softening in wholesale sales expected to be offset with a change in power sales strategy and close watch on the O&M budget. SRP benefits from a very strong liquidity position with net working capital approaching \$1 billion at the end of FY 2002. The strong margins earned in fiscal year 2001 further improved SRP's balance sheet position. SRP expects to utilize some of its cash resources for internally financing new generation and other assets.

As expected SRP management has adapted to the more volatile energy marketplace with various tools and practices to protect against adverse markets. SRP's restrictive credit and trading policies were in place and limited exposure to the credit deterioration in the energy market in 2001-2002. SRP has a well defined counterparty credit evaluation process, exposure limits and reserves to contain worst case exposure. SRP's board sets risk tolerance levels and SRP management has a Risk Oversight Committee to monitor trading activities. SRP trading activities are based on resources and physical assets in order to derive more value. SRP's focus is on better management of its electricity and natural gas positions for its retail purposes.

Outlook

The credit outlook for SRP bonds is stable given SRP's strong credit fundamentals including sound management record. While Moody's expects continued operating pressures to result from the changing industry structure, SRP has continued to demonstrate its capability to manage change.

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